

2014/15 BUDGET BRIEFING

Report on Key Issues
HOUSE APPROPRIATIONS COMMITTEE (D)

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2014/15 PA Budget Revenue & Expenditures Overview

A few hours before midnight on June 30, the House of Representatives passed the General Appropriations bill (House Bill 2328). It provided \$29.099 billion in state fund expenditures for 2014/15, which was an additional \$502 million, or 1.8 percent, as compared to 2013/14, including supplemental appropriations.

Exhausting most of the 10-day window to sign the budget before automatically becoming law, Gov. Corbett signed the budget on July 10, 2014. However, he line-item vetoed a total of \$72.4 million. **After the governor's vetoes, the enacted budget, appropriates total state General Fund spending of \$29.027 billion, which is \$430 million, or 1.5 percent, more than the prior year, including supplemental appropriations.**

This document provides an overview of income and expenditures included in the 2014/15 state budget. More detailed information about funding for specific agencies and programs is available online at www.hacd.net.

Components of Budget Package

The state budget is comprised of several components, which should be passed by the House and Senate and signed by the governor before midnight on June 30 to ensure funding for critical programs continues.

The governor signed the budget bills on July 10 - 10 days after the deadline.

The new fiscal year began on July 1, 2014, and goes through June 30, 2015.

The fiscal year 2014/15 budget includes the following:

- **General Appropriations**

Act 1A, House Bill 2328 - Signed by the governor on July 10, with line-item vetoes.

- **Fiscal Code**

Act 126, House Bill 278 - Signed by the governor on July 10, with line-item vetoes.

- **Non-Preferred Appropriations**

Acts 11A-15A, House Bills 2334-2338 - Signed by the governor on July 10.

Please note: The 2014/15 budget package did not include Public School Code, Public Welfare Code or Tax Code bills.

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Introduction

When Gov. Corbett introduced his 2014/15 budget in February, it assumed that the 2013/14 fiscal year would end with General Fund revenues exactly on estimate. **However, 2013/14 General Fund revenues finished \$508.8 million, or 1.7 percent, below the official estimate.**

The revenue shortfall for 2013/14 combined with a significant downward adjustment to the budget year (2014/15) revenue estimate meant the **governor's budget proposal was out of balance by at least \$1.4 billion to \$1.7 billion.**

To balance the budget, Republicans relied heavily on one-time transfers and other gimmicks that create a significant structural deficit in the following fiscal year.

The 2014/15 budget relies on nearly \$1.9 billion in unsustainable and unreliable revenue sources and accounting gimmicks that might not fully materialize in the budget year and will not be available for the 2015/16 budget. See chart below and list on the next page.

Additionally, the budget relies on questionable adjustments on the financial statement that threaten the ability to sustain the budget throughout the fiscal year including:

- Optimistic revenue estimates;

- Additional lapsed funds; and
- Adjusted tax refund reserve estimates.

A few hours before midnight on June 30, the House of Representatives passed the General Appropriations bill (House Bill 2328). The bill approved by the General Assembly provided \$29.099 billion in state fund expenditures for 2014/15, which was an additional \$502 million, or 1.8 percent, as compared to 2013/14, including supplemental appropriations.

Exhausting most of the 10-day window to sign the budget before it automatically became law, Gov. Corbett signed the budget on July 10, 2014. However, Gov. Corbett line-item vetoed a total of \$72.4 million. Specifically, he vetoed:

- \$65 million of General Assembly expenses, which include the Senate, House and legislative support offices. This represents a 19.8 percent cut to the entire General Assembly budget, as initially appropriated, of \$328.3 million; and
- More than \$7 million in "legislative-designated" spending (i.e. "earmarks").

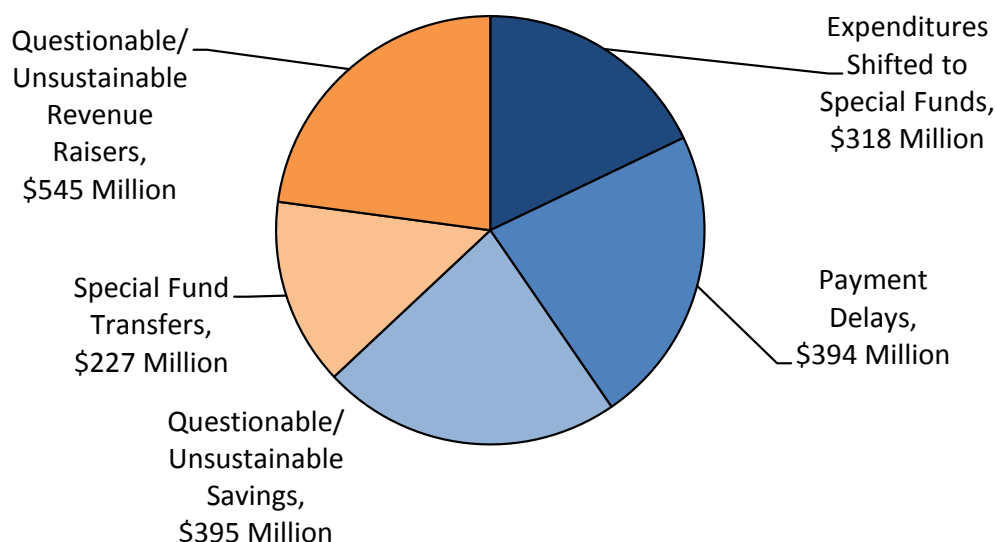
The governor eliminated or reduced several earmark-related appropriations in the General Appropriations bill and eliminated language relating to the distribution of certain appropriations in the Fiscal Code bill. The constitutionality of the

governor's authority to line-item veto portions of the Fiscal Code remains a matter of debate and legal action may be forthcoming.

According to the governor's office, the governor placed other earmarks that were not line-item vetoed, along with some other discretionary programs, in budgetary reserve.

The governor also vetoed \$20 million of transfers from special funds to the General

\$1.88 Billion of Unsustainable Sources & Gimmicks Used to Balance 2014/15 General Fund Budget



Unsustainable Sources and Gimmicks Used to Balance 2014/15 Budget (\$ Amounts in Millions)	
EXPENDITURES	
General Fund Expenditures Shifted to Special Funds	\$317.9
DPW Home and Community-Based Services (Aging Waiver) shifted to the Lottery Fund	\$130.0
DPW Long-Term Care (Nursing Homes) Shifted to the Lottery Fund	\$25.0
DPW Medical Assistance Transportation shifted to the Lottery Fund	\$4.9
Long-Term Care (Nursing Homes) Shifted to the Tobacco Settlement Fund	\$151.0
Department of Conservation & Natural Resources expenses shifted to the Oil & Gas Lease Fund (total transfer was \$115.8 million in 2013/14)	\$7.0
Payment Delays (Only 11 monthly payments to Managed Care Organizations)	\$394.0
Other Questionable/Unsustainable Budget Savings	\$395.0
Medicaid Savings from Healthy PA Proposal	\$125.0
Tobacco Settlement Board Transfer to Teachers' Pension System	\$225.0
Enhanced Federal Matching Funds for Balancing Incentive Program in 2014/15 (will not be available in 2015/16)	\$45.0
Subtotal Expenditures	\$1,106.9
REVENUES	
Special Fund Revenue Transferred to General Fund	\$226.6
Local Law Enforcement Grants	\$8.0
Manville Property Damage Settlement Account	\$2.4
Small Business First Fund	\$95.0
Machinery and Equipment Loan Fund	\$85.0
Volunteer Companies Loan Fund	\$30.0
Alternative Fuels Incentive Fund	\$6.2
Other Questionable/Unsustainable General Fund Revenue Raisers	\$545.0
Escheats – Shortens Holding Period for Unclaimed Property From 5 to 3 Years	\$150.0
Leasing State Forest Land for Additional Drilling, Shifted from Oil & Gas Lease Fund to General Fund	\$95.0
Department of Revenue Notice on Bank Shares Tax	\$40.0
Philadelphia Casino License (Has yet to be issued)	\$75.0
Lawrence County Casino License (Has yet to be issued)	\$50.0
Additional Enhanced Revenue Collections Account	\$40.0
Tax Refund Reserve Use of Prior Year Authorization	\$95.0
Subtotal Revenues	\$771.6
TOTAL	\$1,878.5

Fund, contained in the General Appropriations bill:

- \$5 million reduction to the Small Business First Fund transfer; and
- \$15 million reduction to the Machinery and Equipment Loan Fund transfer.

After the governor's vetoes, the enacted budget, Act 1A of 2014, appropriates total state General Fund spending of \$29.027 billion, which is \$430 million, or 1.5 percent, more than the prior

year, including supplemental appropriations.

Overview

Pennsylvania's spending plan for 2014/15 includes a total of about \$71.4 billion in state and federal funds.

Of the \$71.4 billion, approximately \$55.4 billion in state and federal funds require legislative appropriation each year, while the remaining \$16 billion are governed by existing statutes.

Total 2014/15 appropriations are as follows:

- With the passage of the General Appropriations Act (House Bill 2328, now Act 1A of 2014), the General Assembly passed \$28.5 billion in General Fund preferred appropriations.
 - Additionally, there are \$1.1 billion of General Fund expenditures moved to other funds, payment delays and other unsustainable budget savings.
- The General Assembly passed another \$549.3 million in non-preferred appropriations, along with \$15.9 million in Executive Authorizations, bringing the General Fund total to \$29.098 billion in state dollars, before line-item vetoes.
- **Total state General Fund appropriations, after the governor's \$72.4 million in line-item vetoes, are \$29.027 billion.**
- Also passed as part of the General Appropriations Act were \$22.4 billion in federal appropriations and \$3.9 billion in special fund appropriations.
- "Housekeeping" legislation appropriated another \$333.7 million from other special funds and restricted receipt accounts.

General Fund - Funds Available to Spend

In addition to the estimate of tax and non-tax revenues collected by the General Fund, other factors affected the ending balance of the General Fund for 2013/14, and consequently, the amount of funds available to spend in the 2014/15 fiscal year.

The Governor's Budget Office generally adjusts the official year-end financial statement for:

- The amount of tax refunds that the commonwealth must issue to taxpayers;
- The amount of unspent funds lapsed (returned) from prior years;
- Any revenue surplus or deficit; and
- Supplemental appropriations (adjustment to prior-year appropriations).

After these adjustments, 25 percent of the remaining balance is to be transferred into the Rainy Day Fund, unless the transfer is suspended.

The preliminary financial statement released by the Governor's Budget Office makes drastic assumptions and significant changes to the governor's original proposal in order to show a balanced budget on paper. The most recently available financial statement:

- Lapses unspent funds from current and prior year appropriations totaling \$628.2 million, which is \$306.7 million more than the governor proposed in February (this also includes \$1.5 million in legislative lapses);
- Reduces refund reserves from current and upcoming budget years totaling \$255 million; and
- Adjusts the revenue estimate to reflect updated economic conditions and revenue changes, especially additional non-tax revenues.

General Fund Revenues

The 2013/14 fiscal year ended with total General Fund revenues \$508.8 million, or 1.7 percent, below the official estimate.

General Fund tax revenues were nearly \$28.1 billion, which was \$528.6 million, or 1.8 percent, below estimate. General Fund tax revenue grew by only \$30.1 million, or 0.1 percent, from 2012/13 to 2013/14.

Total General Fund revenue, including non-tax revenue, declined by \$39.8 million, or 0.1 percent, for the same year-over-year period.

The official revenue estimate for the 2014/15 fiscal year, as certified by the Corbett administration, is \$30.2 billion. This is \$60 million less than the revenues assumed when the General Assembly voted on House Bill 2328 on June 30, 2014. Part of the decrease in revenue is due to the governor's line-item veto of \$20 million of transfers from special funds contained in the appropriation bill.

Total General Fund revenues are expected to increase by almost \$1.6 billion, or 5.5 percent, more than the prior year. This is made up of a optimistic tax revenue estimate of 3.6 percent growth, along with more than \$771 million in unsustainable revenue sources. (See chart on Page 3.) The table on the following page shows the General Fund revenue sources and expected growth.

Revenue Category (\$ Amounts in Millions)	2013/14	2014/15	\$ Increase	% Growth
Corporate Net Income Tax	\$2,502	\$2,501	(\$0)	0.0%
Capital Stock and Franchise Tax	\$320	\$269	(\$51)	-15.9%
Gross Receipts Tax	\$1,279	\$1,305	\$25	2.0%
Utility Property	\$37	\$37	\$0	0.9%
Insurance Premiums	\$432	\$437	\$5	1.2%
Financial Institutions	\$318	\$324	\$6	1.9%
Other	\$10	\$3	(\$7)	-68.7%
Sales and Use Tax	\$9,130	\$9,478	\$348	3.8%
Cigarette Tax	\$977	\$952	(\$25)	-2.5%
Malt Beverage Tax	\$25	\$25	\$0	1.2%
Liquor Tax	\$321	\$336	\$15	4.8%
Personal Income Tax	\$11,437	\$12,033	\$595	5.2%
Realty Transfer Tax	\$375	\$448	\$72	19.2%
Inheritance Tax	\$877	\$935	\$57	6.5%
Table Games	\$90	\$92	\$2	1.9%
Small Games of Chance	\$0	\$1	\$1	N/A
Minor and Repealed	(\$33)	(\$54)	(\$21)	61.3%
TOTAL TAX REVENUES	\$28,098	\$29,123	\$1,025	3.6%
Liquor Store Transfer	\$80	\$80	\$0	0.0%
Licenses and Fees	\$109	\$238	\$128	117.4%
Miscellaneous	\$249	\$687	\$438	176.2%
Fines, Penalties and Interest	\$71	\$67	(\$4)	-5.5%
TOTAL NON-TAX REVENUES	\$509	\$1,072	\$563	110.6%
TOTAL GENERAL FUND TAX	\$28,607	\$30,195	\$1,587	5.5%

Tax Refund Reserves

When the General Assembly passed House Bill 2328 on June 30, the Republicans balanced the budget by assuming \$1.105 billion in tax refund reserves for the 2013/14 fiscal year. This was revised downward from the governor's original estimate of \$1.275 billion. This overly optimistic revision freed-up \$170 million that Republicans used to show a balanced budget on paper. **However, the Department of Revenue's June Monthly Revenue Report shows \$1.2 billion in tax refunds issued for 2013/14, which is \$95 million more than the amount budgeted for.**

In order to cover the \$95 million difference, the governor will need to tap into prior-year authorizations. While that is money available to spend, it is a one-time source of revenue and an example of behind-the-scenes accounting gimmicks used by the Republicans to balance the budget.

These gimmicks further contribute to the unsustainability of the budget and increase the structural deficit.

Revenue Changes

The General Assembly did not include any Tax Code bills as part of the 2014/15 budget package; however, the **budget assumes the continued reduction of the capital stock and franchise tax.** The tax rate will decrease from 0.67 mills in tax year 2014 to 0.45 mills in 2015, costing the state about \$786 million in tax revenues in 2014/15 (compared to a tax rate of 2.89 mills). The tax is scheduled to be eliminated thereafter.

This cut brings the cumulative total of Gov. Corbett's business tax cuts to \$2.1 billion in lost revenue since he

took office. The tax cuts are mainly driven by the continued phase-out of the capital stock and franchise tax. For more information, see [Capital Stock and Franchise Tax: Primer](#) and [Gov. Corbett's Corporate Favors: Fast Facts](#).

When the governor introduced his budget in February, he projected \$100 million in revenue from the newly created small games of chance in taverns for 2014/15. **The administration has since revised its estimate for small games of chance downward from \$100 million to a modest \$1 million for the budget year.**

Tax revenues from financial institutions fell short of estimate by about \$86.6 million through April 2014 because of reform measures to the bank shares tax passed in Act 52 of 2013. These reforms were expected to be revenue neutral; therefore, neither the administration nor the legislature expected the significant revenue loss.

In an attempt to boost bank shares tax collections, the Department of Revenue issued an informational notice in April 2014, which limited the options for banks to calculate the tax liability. The notice generated an additional \$36.2 million in May 2014.

While there is no consensus yet on how to permanently fix the issues with the bank shares tax, the 2014/15 budget assumes the Department of Revenue will issue another informational notice for the 2014 tax year in an attempt to recoup an estimated \$40 million for the 2014/15 budget.

The informational notice is just a temporary “fix” which may be appealed; therefore, it fails to address the root of the problem. This is another example of unsustainable, non-recurring revenue, which could add to the structural deficit of the 2015/16 budget.

Proposed Revenue Changes

Notably missing from the 2014/15 budget package are any other sources of sustainable revenue to fill the budget gap and remedy the structural deficit.

House Democrats supported the following revenue sources but none were enacted as part of the 2014/15 budget:

- **Severance Tax on Natural Gas** – Although this topic was discussed heavily in the media as a significant source of revenue, no bills were considered by the House or Senate as part of this year’s budget.
- **Liquor Modernization** – Measures to provide increased customer convenience and greater profits were offered as amendments to several bills; however, those bills were dropped from the committee agendas and no bills were formally considered in either chamber.
- **Other options of sustainable revenue** offered by House Democrats that could have closed the budget gap and addressed the structural deficit, such as taxing other tobacco products, combined reporting, temporarily freezing the capital stock and franchise tax rate, and capping the sales tax vendor discount were not considered as part of the 2014/15 budget. For more information on these revenue sources, see [Gov. Corbett’s Corporate Favors: Fast Facts](#).

Serious options for revenue enhancements

considered by Republicans were limited and lacked serious forethought about the long-term consequences:

- **Liquor Privatization** – Gov. Corbett insisted that liquor privatization be part of the budget; however, no bills to implement it were considered by the House or Senate in 2014. House Bill 790 (Rep. Turzai), which the House passed in March 2013, remains in the Senate Appropriations Committee. Republican proposals to sell the liquor stores would have generated an in-flow of funds, but they failed to consider significant economic realities and social consequences. Their revenue estimates were incredibly theoretical, assuming that complex financial transactions worth hundreds of millions of dollars could be wrapped up within one fiscal year. Further, they conveniently ignored the one-time nature of revenue from selling liquor licenses. Once those funds are spent, the commonwealth would be left without long-term liquor store profits that support state programs and save money for taxpayers - yet another complication for an already burgeoning structural deficit.
- **Tax Credit Suspension** – Although the House Republicans passed House Bill 2188 (with no Democratic votes), which placed a two-year suspension on 13 various tax credit programs; the Senate did not consider the bill. It remains in the Senate Finance Committee. Again, the move appeared to be a desperate attempt by the House to find a way to plug a budget gap. The proposal for a tax credit suspension was a short-sighted proposal without thought to the complications it would cause for taxpayers and a move that would increase the structural deficit further in just two more years.

Rainy Day Fund

No funds will be transferred to the Rainy Day Fund (Budget Stabilization Reserve Fund) again this year, as proposed by Gov. Corbett and implemented in the Fiscal Code.

Pennsylvania’s inability to replenish reserves is of growing concern, especially when considered in conjunction with the significant structural deficit. When Moody’s Investors Service recently

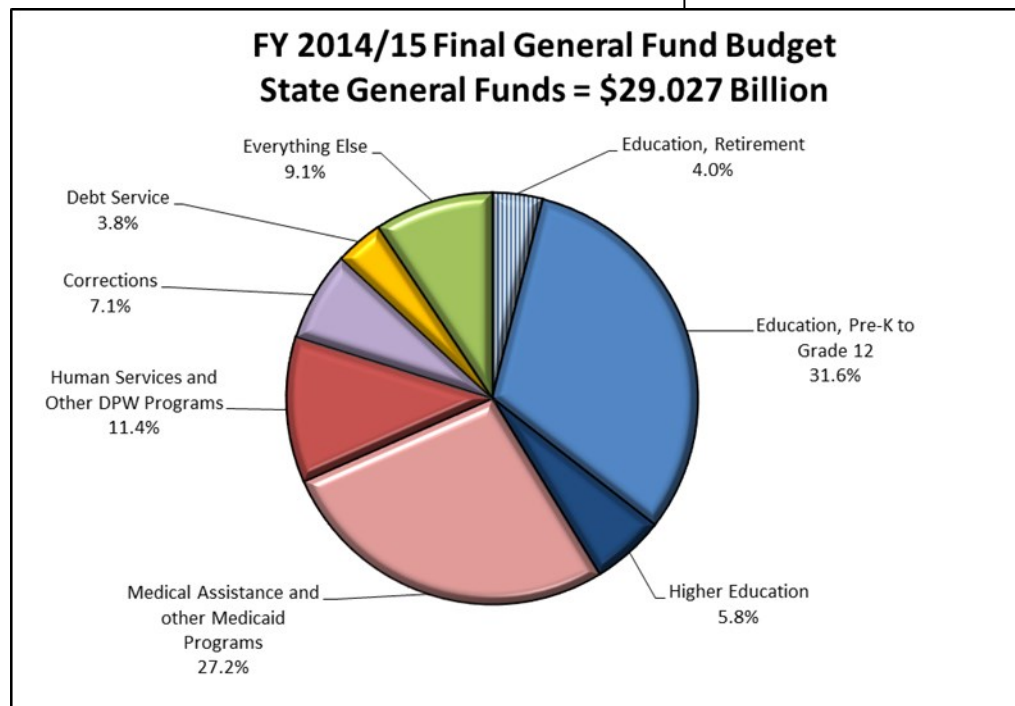
downgraded Pennsylvania's general obligation debt rating, it noted the "large and growing structural imbalance[,]...the continued use of one-time measures in the budget, and the ongoing deferral of restoring reserves" as contributing factors.

Without suspension of current law, General Fund surpluses (revenue less expenditures) for the last several years would have triggered an annual 25 percent transfer to the Rainy Day Fund.

Please note: Although the 2013/14 fiscal year ended with General Fund revenues \$508.8 million below estimate, the financial statement shows a positive ending balance of \$80.6 million, because of current year lapses. The balance will roll over to the 2014/15 fiscal year to balance the budget.

General Fund - Expenditures By Program Area

The chart below shows a breakout of the 2014/15 General Fund budget by broad spending categories.



\$309.5 million, or 3.1 percent. Excluding the mandatory pension payment and after considering supplemental appropriations in 2013/14, state funding for education increases by only \$159 million, or 1.76 percent.

Total education funding, excluding pensions, remains less than 2008/09, the fiscal year prior to federal stimulus funding. Keep in mind, for several years, the state chose not to make its pension payments. Now that the state is required to make its payments (under Act 120), the governor is counting those artificially higher pension payments as funding to classrooms.

For the fourth budget in a row, the governor and Republican majority failed to fund the following programs: Dual Enrollment, Reimbursement of Charter Schools, Educational Assistance Program (tutoring), Science: It's Elementary, School Improvement Grants or Intermediate Units.

The state's share of school funding is declining. The

state provides 35.2 percent of school funding, as compared to 40 percent in 1995/96. School districts rely on federal funding and other sources, such as local property taxes, for the rest of their funding.

Pennsylvania spends nearly three times more to house a prisoner than to educate a child. The average annual cost to educate a student in Pennsylvania is \$14,620; the average annual cost to house one prisoner is \$41,100, according to the Governor's Executive

Education

Department of Education

K-12

Overall, the enacted budget increases the Department of Education's (PDE) total Pre-K through 12 funding from \$10.02 billion in 2013/14 to \$10.33 billion in 2014/15, which is an increase of

Budget materials.

The budget flat funds the **basic education subsidy** at \$5.526 billion compared to 2013/14; however, the basic education subsidy formula only drives out approximately \$5.523 billion. The remaining \$2.7 million will be placed in the Transition Loan Account, which provides loans to financially distressed school districts.

The final budget increases funding for the **special education subsidy** by \$20 million compared to 2013/14, for total state funding of \$1.047 billion. Each school district will receive the same amount they received in base funding in 2013/14. Of the \$20 million increase:

- \$19.8 million, or 99 percent, will be distributed to school districts using a new formula based upon student cost, relative district wealth and other factors.
- The remaining \$200,000, or 1 percent, will be set aside for extraordinary special education costs in districts and charter schools.

The new special education formula excludes charter schools. Charter schools will continue to receive tuition payments from school districts, as provided under current law.

The special education formula provides flat funding to Intermediate Units compared to 2013/14. This funding will be distributed in the same manner as 2013/14.

The budget eliminates the \$100 million **Accountability Block Grant**, and instead provides \$200 million for the **new Ready to Learn Block Grant**. The enacted budget provides school districts more flexibility with this grant than was originally proposed by the governor.

The budget distributes the funding as follows:

- \$100 million will be distributed to school districts in the same manner as the 2013/14 Accountability Block Grant.
- An additional \$92 million will be distributed to school districts through a new funding formula that calculates payments based upon a base amount of \$231 per student, student count, aid ratio and other factors. The Fiscal Code permits school districts to deduct these funding increases from the calculation for payment of charter school student tuition.
- The formula provides \$8 million to charter schools.

For more detailed information, see the spreadsheet with funding by school district at www.hacd.net.

Of the **early childhood initiatives** within PDE's budget:

- The Ready to Learn Block Grant/Accountability Block Grant is typically used primarily for early learning initiatives.
- In addition, the enacted budget increases **Pre-K Counts** by \$10 million, or 11.5 percent, compared to 2013/14.
- The budget provides flat funding for **Head Start Supplemental Assistance** at \$39.2 million.
- The enacted budget provides a \$9.5 million, or 4.2 percent, increase for **Early Intervention**, a federally mandated program required to serve all eligible students.

For more information on early childhood funding, see the Department of Public Welfare section on Page 15.

The enacted budget flat funds the **Public Library** subsidy at \$53.5 million.

The budget flat funds the **Safe Schools Initiative** at \$8.5 million. The funding provides targeted grants to schools and municipalities to address school violence and safety issues.

\$1 Billion in Cuts to Classroom Funding Remains Largely in Place

Despite the increase in education funding, the nearly \$1 billion in cuts to classroom funding enacted in Gov. Corbett's first budget remains largely in place.

Republicans attempt to include non-classroom education funding the state is required to pay school districts (e.g. transportation and pensions) to give the impression that the state is providing record K-12 funding. However, if you consider the five major subsidies, state funding for school districts remains lower than 2008/09, which was the fiscal year prior to the federal stimulus money.

Keep in mind, for several years, the state chose not to make its pension payments. Now that the state is required to make its payments (under Act 120), the governor is counting those artificially higher pension payments as funding to classrooms.

The budget flat funds **Career and Technical Education** (vocational-technical schools) at \$62 million compared to 2013/14. It also flat-funds the \$3 million appropriation for equipment grants. This competitive grant program is available to vocational-technical schools and school districts that operate vocational-technical programs.

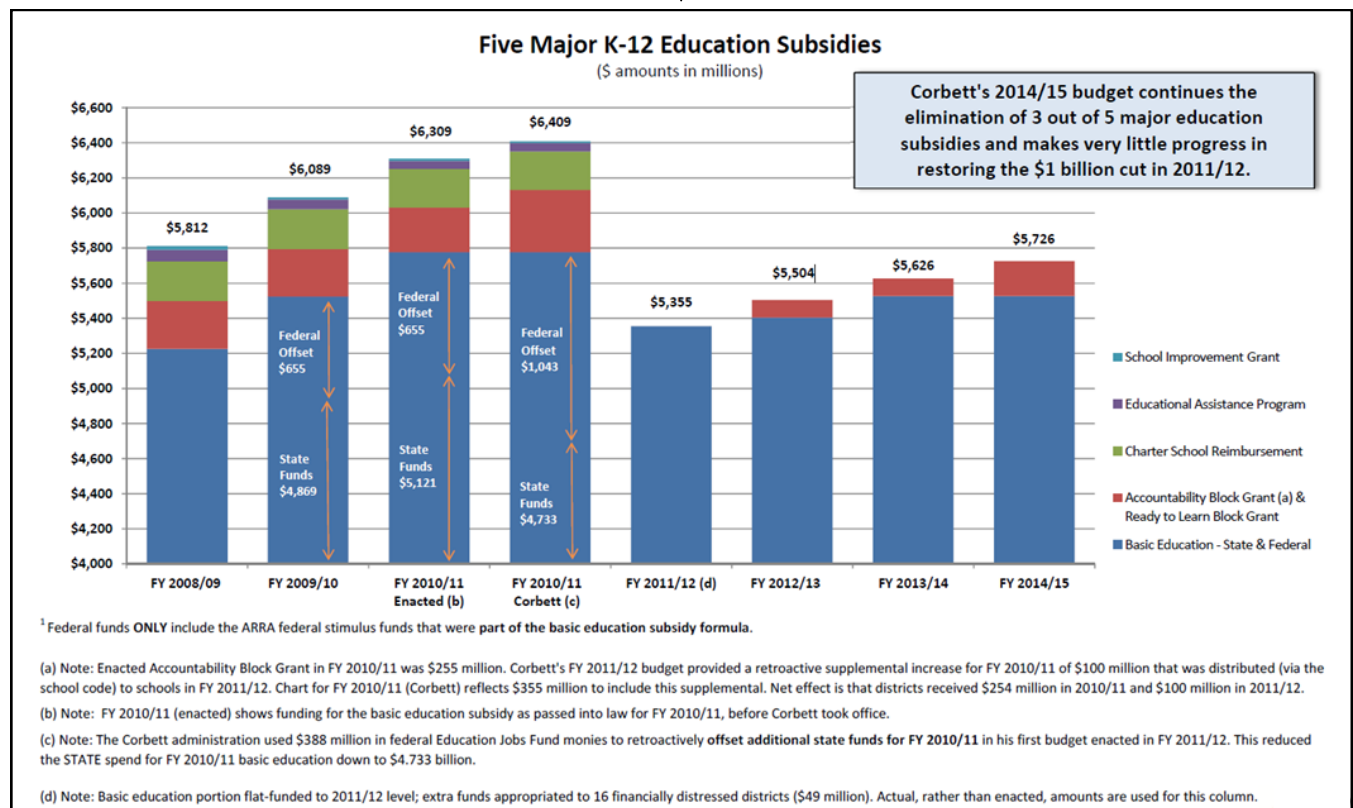
The enacted budget provides a \$10 million increase for **PlanCon**, for total funding of \$306.2 million. PlanCon, which is funded through the Authority Rentals and Sinking Fund Requirements appropriation, is a statutorily mandated reimbursement to school districts for a portion of their capital expenditures and to charter schools for the cost of leased facilities. Please note that a moratorium in place since October 2012, which prohibited funding approval of additional school construction projects, was not renewed in the budget.

Although the Department of Education (PDE) has indicated that an increase in funding for PlanCon would fund some school construction projects on the waiting list, this \$10 million increase will do little to resolve the current significant backlog. According to PDE, the department needs \$105 million to advance “G” level projects to the “H” level, when school districts receive reimbursement.

The budget provides \$50 million for the **Educational Opportunity Scholarship Tax Credit**, also known as “voucher-lite”. This program affords tax credits to businesses that contribute to scholarship organizations for the purpose of providing school vouchers to students in low-achieving public school districts. Students receiving these vouchers may attend public or private/parochial schools. The tax credit program was first enacted in 2012/13 and continues unless a change is made to the Tax Code. Of the \$50 million available in the three fiscal years of the program, the actual usage was: \$18.2 million in 2012/13, \$29.6 million in 2013/14 and \$31 million to date in 2014/15. To date, no data is available on the number of students who receive vouchers and which school each student attends.

The budget continues the **Educational Improvement Tax Credit (EITC)** at \$100 million, the same level available in 2013/14. This program awards tax credits to businesses that make contributions to scholarship organizations, educational improvement organizations and Pre-K scholarship organizations. This tax credit program continues at the current level unless a change is made to the Tax Code.

A more in-depth education funding briefing will be available this summer at: www.hacd.net.



Higher Education

The 2014/15 budget increases funding for certain institutions of higher education as compared to 2013/14, while others receive the same amount. The budget:

- Provides **Community Colleges** an additional \$3.5 million for operating support, for a total of \$215.7 million.
- Provides **Pennsylvania College of Technology**, part of Penn State University, an additional \$2 million, for a total of \$17.6 million.
- Provides **Thaddeus Stevens College of Technology** with a \$2 million increase for its appropriation, bringing its appropriation to \$12.3 million.

The budget **level-funds the other institutional support appropriations for public colleges and universities**, including Penn State University (excluding the Pennsylvania College of Technology), the University of Pittsburgh, Temple University, Lincoln University and the Pennsylvania State System of Higher Education.

distance education pilot program, which provides PHEAA grants for students primarily taking classes online who would not qualify for a regular PHEAA grant under current guidelines. PHEAA will also continue to use its business earnings to support the Targeting Industry Cluster Program, or PA-TIP, which provides grants to students enrolled in industry certificate programs less than two academic years in length. For 2014/15, the PHEAA board has approved \$6 million for PA-TIP, an increase of \$1 million.

The budget establishes a **new \$5 million “Ready to Succeed” scholarship** alongside the existing state grant program. Gov. Corbett’s February budget proposed \$25 million for this program. The Fiscal Code bill directs PHEAA and the Department of Education to develop the program, which will be targeted at students with annual household income less than \$110,000 and outstanding academic achievement attending institutions of higher education in the commonwealth.

The budget provides level funding for **Community Education Councils** at \$2.3 million. The budget also provides level funding at \$48.9 million for **capital funding for community colleges**.

State Funding for Higher Education as Compared to 2013/14 and 2010/11

<i>\$ Amounts in Thousands</i>	2013/14 (Available)	2014/15 (Budget)	\$ Change	% Change	% Change from 2010/11
Community Colleges	\$212,167	\$215,667	\$3,500	1.6%	-8.5%
State System of Higher Education	\$412,751	\$412,751	\$0	0.0%	-18.0%
Penn State University*	\$229,694	\$231,694	\$2,000	0.9%	-17.6%
University of Pittsburgh	\$136,293	\$136,293	\$0	0.0%	-18.9%
Temple University	\$139,917	\$139,917	\$0	0.0%	-19.0%
Lincoln University	\$13,163	\$13,163	\$0	0.0%	-4.5%
Thaddeus Stevens College	\$10,332	\$12,332	\$2,000	19.4%	13.4%

**Includes funding for Penn College of Technology. The budget increases funding for Penn College of Technology by \$2 million, or 12.8 percent, from \$15.6 million to \$17.6 million.*

Institutional assistance grants for private schools under PHEAA also received the same level of funding as compared to 2013/14.

The budget provides level-funding for **PHEAA grants for students** at \$344.88 million. In addition to appropriated state funds, PHEAA will again augment the state grant program with \$75 million in business earnings, plus an additional \$10 million for the

to establish the new institution, which will initially partner with another institution of higher education to offer accredited courses and programs and later transition into independence. Although the new institution will be similar in many respects to existing community colleges, no local sponsor support is required.

The budget provides a \$1.2 million increase for regional community college services. These additional funds are to support a **new rural regional college** that provides two-year postsecondary education and workforce development. The Fiscal Code contains language

Pensions

For the second straight year, the General Assembly considered, but did not pass, any legislation to change the state's current pension systems. Similar to last year's efforts, actuaries – experts in analyzing the costs, risks and uncertainty of changes to pension plans – found significant weaknesses in the various proposals.

Specifically, the actuaries found the proposals failed to reduce the state pension systems' debt any faster than under current law (Act 120 of 2010) or provide any cost-effective changes to provide school districts and the commonwealth near-term budgetary relief. Thus, the General Assembly did not take action on the proposals.

- The proposal introduced by Rep. Kampf (House Bill 1353) in 2013 - which is designed to move all new teachers, state police officers, corrections officers, and other state personnel into a 401(k)-style defined contribution plan, and which would effectively close the state's two defined benefit plans - still remains under consideration.
- A multitude of amendments to Rep. Kampf's bill were introduced, including concepts such as creating a:
 - Two-tier "hybrid" plan consisting of both a defined benefit component and a defined contribution component (Rep. Tobash); and a
 - Cash balance plan (Rep. Grell).

Note: The General Assembly has not held public hearings on these proposals to explore their implications.

Also, the final budget does not include Gov. Corbett's budget proposal to further taper the pension rate collars for the next four years (i.e. make less than the legally required payments). The governor's proposal would have only exacerbated the pension debt and further threatened the commonwealth's creditworthiness.

State Employees' Retirement System (SERS)

The 2014/15 budget includes approximately \$529 million in mandated state-paid employer contributions for state employees' retirement for agencies under the governor's jurisdiction, pursuant to Act 120 of 2010. This is an increase of \$117 million, or 28 percent, over 2013/14.

Public School Employees' Retirement System (PSERS)

The 2014/15 budget includes a partial payment towards its \$1.48 billion mandated state-paid employer contributions for public school employees' retirement, pursuant to Act 120 of 2010. The payment consists of a combination of appropriations, transfers, and cost-avoidance measures totaling between \$1.35 billion and \$1.41 billion, a shortfall of \$78 million to \$132 million. The following are included in the payment:

- Approximately \$1.16 billion from the General Fund.
- A one-time \$225 million transfer (as estimated by the Governor's Budget Office) from the Tobacco Settlement Investment Board to the PSERS Fund from private equity investments and cash reserves in the Tobacco Settlement Fund and the Health Venture Investment Account. Of those assets, only \$45 million is cash and the balance is illiquid, long-term, high-risk investments. PSERS estimates the value of the venture capital investments in the secondary market would be between 40 and 70 cents on the dollar. **Thus, the transfer at is valued at between \$117 million to \$171 million, and is therefore short roughly \$54 to \$108 million.** The reduced cash payment from the state causes liquidity issues for the system. Additionally, any amount received that is less than the annual required contribution will be considered debt by the system's actuary.
- Roughly \$76 million in savings from no longer reimbursing charter and cyber charter schools for contributions to public school employees' retirement, also known as the pension "double dip."

Public Employee Retirement Commission (PERC)

The final 2014/15 budget includes an appropriation of \$914,000 for PERC, an increase of \$145,000, or 19 percent.

The increase reflects accelerated costs associated with providing actuarial analyses for robust legislative pension proposals and increased expenditures associated with benefits and operating.

Health & Human Services

Department of Public Welfare

The enacted budget appropriates \$11.208 billion in state General Fund revenue for the Department of Public Welfare (DPW) in 2014/15. This represents an increase of \$123.6 million over DPW's 2013/14 budget, which included a \$128.5 million supplemental appropriation increase.

DPW's enacted 2014/15 budget is \$230 million less than Gov. Corbett's Executive Budget request. Nearly half of this decrease is because the final budget shifted an additional \$110 million of General Fund expenditures to the Tobacco Settlement Fund (\$81 million) and the Lottery Fund (\$29.9 million).

Medical Assistance for Workers with Disabilities (MAWD)

On July 24, the Corbett administration announced that it decided not to terminate the MAWD program, as proposed as part of the governor's Healthy PA plan. The governor's proposal to terminate MAWD, effective January 2015, is reflected in DPW's enacted budget; consequently, some expenditure adjustments will be necessary to assure the program has sufficient funding in 2014/15.

The pie chart below shows the distribution of DPW's enacted 2014/15 General Fund budget among the major program areas. General Fund revenues account for approximately one-third (35 percent) of DPW's total budget.

The balance is comprised of federal funds (primarily Medicaid matching funds), special funds (namely Lottery Fund and Tobacco Settlement Fund) and other revenue (largely assessments collected from Medicaid providers such as hospitals, nursing facilities and managed care organizations).

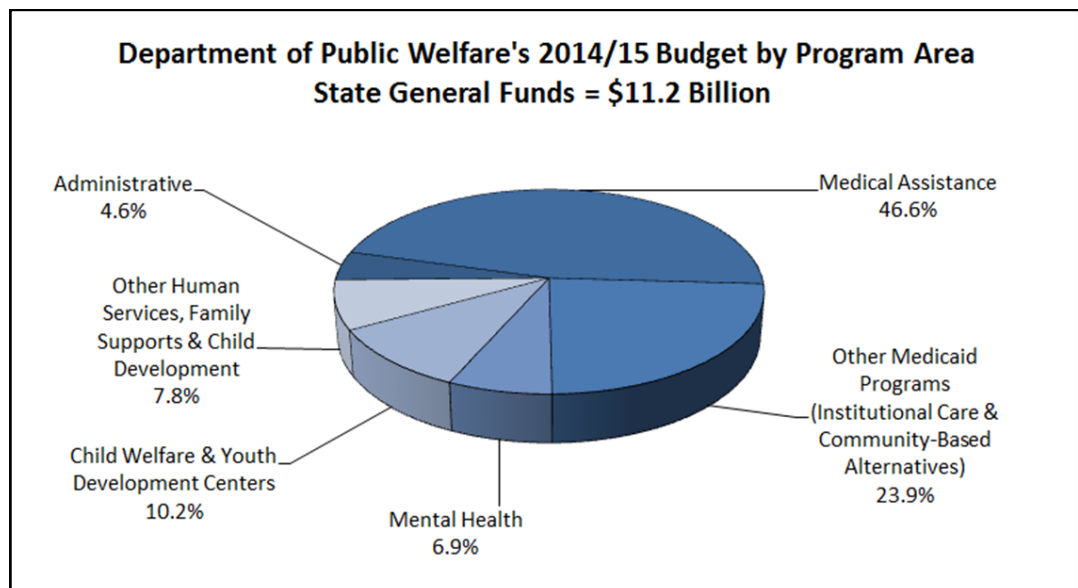
More detail on DPW's 2014/15 budget will be forthcoming in a series of Budget Briefings on the major program areas.

Medical Assistance

State General Fund spending for the four major Medical Assistance appropriations – MA-Capitation, MA-Outpatient, MA-Inpatient, and Payment to Federal Government for the Medicare Drug Program – totals nearly \$5.1 billion in 2014/15. This is \$127 million more than 2013/14, which included a supplemental increase of \$45 million. Spending would be significantly higher in 2014/15 but for the fact that the budget delays payments to managed care organizations (MCOs) in order to reduce state expenditures by \$394 million.

The enacted budget assumes an additional 150,000 individuals will receive health care coverage through the Medical Assistance (MA) program during 2014/15, with average monthly caseload projected to exceed 2.3 million. Approximately 1.7 million (or more than 70 percent) of MA participants will be enrolled in the *HealthChoices* managed care program funded through the MA-Capitation appropriation. The remaining participants (comprised primarily of seniors and adults with disabilities) will receive their care through the fee-for-service delivery system funded through the MA-Outpatient and MA-Inpatient appropriations.

In addition, the 2014/15 budget assumes more than half a million adult Pennsylvanians will be newly eligible for Medicaid and obtain federally-funded



health insurance, beginning January 2015, under the private coverage option proposed in Gov. Corbett's "Healthy PA" waiver which is still being negotiated with the federal government.

Assuming the federal government approves the waiver in time for Jan. 1, 2015, implementation, the enacted budget appropriates \$2.3 billion of federal funds to pay the full cost of coverage provided to newly eligible adults.

The budget also includes the \$125 million of state savings in the Medical Assistance program during the second half of the fiscal year, due to Medicaid provisions in the Healthy PA Waiver. These savings are the administration's projections which assume Healthy PA starts January 2015; changes to the waiver as well as delays in the start-up would impact the estimated savings.

- Most of the savings (\$108.1 million) are attributed to switching the state-funded General Assistance population to the new adult Medicaid expansion group whose coverage (whether it be through the traditional Medicaid program or the alternative private coverage option) is fully funded with federal dollars as stipulated in the Affordable Care Act.
- \$7.2 million is associated with eliminating the Medical Assistance for Workers with Disabilities (MAWD) program which enables working adults, who have a disability and have incomes no greater than 250 percent of federal poverty, to purchase Medical Assistance coverage by paying DPW a monthly premium. **The governor proposed to eliminate MAWD, effective Jan. 1, 2015; however, on July 24 the administration decided to keep the program and so these savings can no longer be counted.**
- \$586,000 is associated with eliminating the Select Plan for women, which extends family planning services to uninsured women with incomes up to 185 percent of the federal poverty level. The governor proposes to eliminate the program, effective Jan. 1, 2015.
- \$9.5 million is associated with the various Medicaid "reforms" proposed in the submitted waiver, including redesigning and limiting benefits, levying monthly premiums, and imposing job training/work requirements. These

"reforms" are controversial and are unlikely to be approved as proposed; consequently, compromise on the part of the Corbett administration will be necessary in achieving final approval.

As requested by Gov. Corbett, **DPW will only make 11 monthly managed care payments in 2014/15, with the April 2015 payment postponed until July 2015** (when the MCOs receive their May and June payments). The payment delay applies to all behavioral health MCOs and to those physical health MCOs which operate in the 25 "heritage" counties in the *HealthChoices* zones in the Southeast, Southwest and Lehigh/Capital regions. While the payment delay is expected to save the state \$394 million in 2014/15, it will delay total payment for the MCOs by nearly \$800 million (state funds plus the federal Medicaid matching funds).

The enacted budget did not provide additional funding to increase managed care rates; however, it is still too early to determine how DPW intends to use the appropriated funds and whether it has sufficient room to increase rates. We will know more when the department releases its rebudget later this summer.

The 2014/15 budget generally maintains the various hospital supplemental payments at the 2013/14 funding level. This includes the disproportionate share (DSH) and medical education payments that are funded through the MA Outpatient and MA Inpatient appropriations. It also includes the special hospital payments that are funded through their own appropriation: Obstetric and Neonatal Services, Critical Access Hospitals, Hospital-Based Burn Centers and Trauma Centers. The reduced state appropriation for two of the special payments reflects the use of statewide hospital assessment revenue to replace General Funds: Obstetric and Neonatal Services uses \$3 million of assessment revenue and Critical Access Hospitals uses \$3.2 million.

Other Medicaid Programs

State General Funds totaling nearly \$2.7 billion are appropriated for Medicaid programs that provide long-term care services to the elderly and individuals with disabilities. This includes funding for institutional care provided to Medicaid residents in

nursing facilities and intermediate care facilities for individuals with intellectual disabilities. It also includes funding for community-based programs that serve people who would otherwise require institutional care.

The final budget uses \$306 million from special funds for expenditures previously paid with General Fund revenue:

- \$130 million of Lottery Fund revenue is used for Aging Waiver services provided to seniors through the Home and Community-Based Services appropriation.
- \$25 million of additional Lottery Fund revenue is used for nursing facilities, which are funded through the Long-Term Care appropriation. The governor had requested no additional Lottery Funds for nursing facilities, proposing instead to keep these funds at the 2013/14 level.
- \$151 million of Tobacco Settlement Fund revenue is redirected to nursing facilities as the result of changing the statutory percentages for distributing tobacco payments among programs. This is \$81 million more than Gov. Corbett's request, which proposed redirecting \$70 million.

The enacted budget expands home and community based services to 2,849 individuals with disabilities, as proposed by the governor. However, it provides fewer months of services, compared to the governor's proposal, and thereby reduces state costs for the following initiatives by \$22 million, or approximately half of the governor's budget request.

- **Intellectual Disabilities (ID) – Community Waiver Program** is expanded to serve 400 individuals on the emergency waiting list, 700 students graduating from Special Education, and 50 individuals who currently reside in the state ID centers.
- **Services to Persons with Disabilities** are expanded to serve an additional 1,203 adults with severe physical disabilities.
- The **Attendant Care Waiver** program is expanded to serve an additional 396 disabled adults.
- **Autism Intervention and Services** are expanded to serve an additional 100 adults with autism.

The Corbett administration is finally taking advantage of the federal Medicaid funds available under the Affordable Care Act (ACA) for home and community-based programs. Specifically, the 2014/15 budget includes \$75 million of enhanced federal Medicaid match through the Balancing Incentive Program (BIP); some of these funds will be used to expand Medicaid home and community based Waiver programs for the elderly and individuals with disabilities. The ACA authorized the BIP and included \$3 billion for the program, which began October 2011 and will expire after Sept. 30, 2015. Pennsylvania's BIP application was approved by the federal government on June 18 and funding began July 1. It is important to note that only one quarter of BIP enhanced federal match (equal to two percentage points) will be available in 2015/16; therefore, state funds will be needed to replace the federal funds that disappear after Sept. 30, 2015.

The various Medicaid waiver programs that serve elderly and disabled Pennsylvanians include \$22 million additional state funding to provide rate increases for service coordination and personal assistance services. It also includes \$7.2 million to remove the waiting list for the Act 150 attendant care program, which serves individuals who are not eligible for Medicaid (persons who are Medicaid eligible receive services through the Attendant Care Waiver program). Funding for the rate increases and the Act 150 waiting list was not in the governor's budget proposal; rather it appeared several months later in DPW's spring update, in response to a lawsuit.

With respect to nursing facilities, it is too soon to know how much of a rate increase they will receive in 2014/15. We will know more after DPW releases its rebudget, detailing how it intends to spend the appropriated funds.

Human Services

The state appropriation for **Mental Health Services**, which funds the state mental hospitals operated by DPW as well as the community programs administered by counties, increases by \$41.1 million, or 6 percent, to \$731.6 million in 2014/15. Most of this increase is for the state mental hospitals, primarily to fund higher personnel costs.

Approximately \$11 million of the increase will be

used to provide additional funds for community mental health programs, mostly to fund community placements for individuals being transferred from the state hospitals in 2013/14 and 2014/15:

- \$2.36 million will be used to expand home and community-based services in 2014/15 to 90 people who currently reside in the state hospitals. These funds, which are half of the governor's funding request, will go to those counties in which individuals are placed.
- Another \$4.7 million is for the annualization (providing 12 months) of services for the 90 hospital residents who were moved into the community during 2013/14. This additional funding goes to the counties in which these individuals were placed.

State funding for the community mental health base program, which is part of the **Human Service Block Grant Pilot Program**, is basically flat-funded for the second consecutive year.

The 2014/15 budget marks the third year of the Human Services Block Grant Pilot Program. The number of counties that may participate in the pilot program remains at 30, as currently stipulated in the Public Welfare Code.

The following county-run human services programs, which are in the pilot program, are essentially funded at their 2013/14 level and must operate another year with \$84 million less because of the 10 percent cut that was enacted in 2012/13:

- Community mental health services, including the base program which is funded through the **Mental Health Services** appropriation and the services funded through the Behavioral Health Services appropriation (this appropriation also funds drug and alcohol treatment).
- **Intellectual Disability Community Base Program**;
- **Drug and alcohol treatment services**, including the Act 152 services which are funded through the MA-Outpatient appropriation and those services funded through the **Behavioral Health Services** appropriation.
- **County child welfare special grants**, which are part of the **County Child Welfare** appropriation;

- **Homeless Assistance**; and
- **Human Services Development Fund**.

State funding for **County Child Welfare** increases \$26.4 million, or 2.5 percent, compared to 2013/14, reflecting county requests per the needs-based budget process. This is \$2 million below the governor's request as the result of replacing state funds with revenue from the recent fee increase for birth certificates. Specifically, Act 28 of 2014 increased the fee charged by the Department of Health for a copy of a birth certificate from \$10 to \$20 (effective July 1, 2014) and stipulates that the additional \$10 fee be transferred to DPW in 2014/15 for training of mandated reporters of child abuse and child abuse related costs.

The 2014/15 budget includes 10 percent increases in state funding for **Domestic Violence** (\$1.3 million) and **Rape Crisis** (\$797,000) programs, as proposed by the governor.

Early Childhood Development

The enacted budget reflects Gov. Corbett's proposed spending plan for DPW's child care programs. The appropriation for **Child Care Services**, which provides child care subsidies for low-income working families and early childhood quality improvement initiatives (such as Keystone STARS), includes the following two initiatives which are funded with federal funds:

- \$15 million in federal **Child Care Development Block Grant** funds are budgeted to serve an additional 2,895 children on the waiting list.
- \$15.2 million in federal **Early Learning Child Grants** are budgeted to provide high quality early learning opportunities to additional low-income and disadvantaged children. This is a four-year grant and the 2014/15 funding level is an \$8.3 million increase compared to 2013/14.

As requested by the governor, the budget includes an additional \$1.85 million for increased unannounced **inspections of regulated child care facilities**; however, while the governor recommended using state funds, the enacted budget uses available federal funds instead. This initiative, which is funded through DPW's appropriation for General Government Operations, funds 22 inspectors.

State funding for **Early Intervention** is \$4.2 million less than the governor's request; however, this reduction is possible due to the availability of federal funds to pay for services in 2014/15.

For more information on early childhood funding, see the Department of Education section on Page 8.

Family Supports

The enacted budget decreases the state appropriation for **Cash Grants** by \$11.2 million compared to 2013/14 and by \$15 million compared to the governor's 2014/15 request. These reductions reflect the availability of \$15 million of unobligated federal TANF funds available to spend in 2014/15.

Funding for Supplemental Grants – Aged, Blind and Disabled is \$1.9 million less than the governor's 2014/15 request, reflecting a downward revision in projected monthly recipients.

Administrative Operations

The enacted 2014/15 budget reduces the state funding requested by Gov. Corbett for the 716 new positions he identified to implement his Healthy PA proposal. It remains to be seen how many positions DPW will fill in 2014/15, given the following funding reductions:

- \$12.8 million is budgeted for 606 positions in the County Assistance Offices, which is 30 percent less than the governor's request;
- \$1.65 million is budgeted for 72 staff in agency headquarters (funded through the County Administration-Statewide appropriation), which is 50 percent less than the governor's request;
- \$606,000 is budgeted for 31 positions in the Bureau of Hearings and Appeals (funded through the General Government Operations appropriation), which is 50 percent less than the governor's request; and
- \$160,000 is budgeted for seven positions for Information Systems, which is 50 percent less than the governor's request.

Department of Health

The budget provides flat funding for the **State Health Care Centers** compared to 2013/14. The 2013/14 budget assumed the governor's proposal for the consolidation of the commonwealth's 60

state health care centers down to 36, as well as making changes in district offices. It was estimated to result in 73 layoffs (including 26 community health nurses). This proposal is currently on hold because of active litigation.

The budget provides \$4.7 million for the **Primary Health Care Practitioner** appropriation for an initiative as part of the governor's Healthy PA proposal to "recruit and retrain health care professionals in underserved areas of the state." The budget increases the appropriation by \$1 million as compared to 2013/14; however, that is \$3 million less than the governor proposed in his budget.

As another part of his Healthy PA proposal, Gov. Corbett proposed to double the **Community Based Health Care Subsidy** program to \$8 million as compared to 2013/14 to "increase access to preventative primary care services for uninsured individuals in underserved areas of the state." The enacted budget only includes \$6 million for this program. Act 10 of 2013 established the Community-Based Health Care Program in the Department of Health.

The department's budget also includes numerous health grant appropriations to fund research, prevention, treatment and education. Activities in these appropriations can help keep patients out of more costly health care settings. The enacted budget restores funding cuts under the governor's original proposal, and in some cases funds these appropriations at levels higher than 2013/14. The governor did not veto these appropriations; however, he indicated that some of these funds which are identified in the Fiscal Code may be placed into budgetary reserve to ensure revenue collections are on target before releasing the funds.

Insurance Department

The enacted budget provides for more children enrolling in the Children's Health Insurance Program (CHIP) during 2014/15 without increasing funding. The governor had requested an additional \$9 million to cover an additional 10,419 children; however, with 2013/14 enrollments less than projected, level funding was sufficient to cover current CHIP enrollees, as well as projected new enrollees in 2014/15.

Department of Drug & Alcohol Programs

The enacted budget increased funding for department operations by \$158,000, or 34 percent. State funding for drug and alcohol programs remains at the same level as 2013/14.

Tobacco Settlement Fund

The final budget includes \$409.1 million of spending from the Tobacco Settlement Fund for health-related programs, as detailed in the table below. The 2014/15 program allocations reflect changes that the General Assembly made to the funding percentages enacted last year (Act 71 of 2013) in order to redirect dollars to help pay for nursing facility costs in the Department of Public Welfare's budget.

Tobacco Settlement Fund	Revised	Final
Expenditures for Health-Related Programs	2013/14	2014/15
<i>(\$ Amounts in Millions)</i>		
Home and Community-Based Services	\$41.1	\$40.0
Tobacco Use Prevention and Cessation	\$9.3	\$13.8
Health Research - Broad Based	\$19.9	\$38.7
Health Research - Cancer	\$1.6	\$3.1
Hospital Uncompensated Care	\$12.9	\$25.1
Medical Assistance for Workers with Disabilities	\$94.7	\$46.5
PACEnet Transfer	\$0.0	\$0.0
Other Health-Related Programs:		
<i>Medical Assistance - Long Term Care</i>	\$95.1	\$238.9
<i>Life Sciences Greenhouses</i>	\$0.0	\$3.0
TOTAL	\$274.6	\$409.1

Among the tobacco dollars being redirected are the disputed payments that Attorney General Kane successfully

recouped for the commonwealth after appealing the earlier decision of a federal arbitration panel that reduced the payments owed by tobacco manufacturers.

Altogether, the 2014/15 budget shifts \$151 million of DPW nursing facility costs

from the General Fund to the Tobacco Settlement Fund. This is \$81 million more than the \$70 million shift that was initially included in Gov. Corbett's budget proposal. The \$151 million shift primarily results from changes made to the funding percentages for 2013/14 and 2014/15, which redirected tobacco payments to nursing facilities homes. It also reflects the use of available balances in the Tobacco Settlement Fund to help pay for nursing facilities.

Changes to the funding percentages used to allocate tobacco payments are summarized below. The 2013/14 changes restored half of the funding (that was previously frozen by the governor) for CURE health research grants and hospital uncompensated care payments, while making nearly \$65 million

available for nursing homes. The 2014/15 changes reflected Gov. Corbett's original proposal to eliminate the Medical Assistance for Workers with Disabilities (MAWD) program, effective January 2015, and to redirect \$70 million of tobacco payments to nursing facilities.

- For 2013/14, the General Assembly nearly doubled the allocation for health-related purposes (namely nursing homes), while eliminating the allocation for PACENET

and reducing the allocations for the following programs: tobacco use prevention and cessation

Programs Receiving Annual Appropriations from the Tobacco Settlement Fund	Act 71 of 2013	New Percentages in Act 126	
	2013/14 & Beyond	2013/14	2014/15
Home and Community-Based Services	13%	13%	13%
Tobacco Use Prevention & Cessation Programs	4.50%	2.93%	4.50%
CURE-Broad-Based Health Research	12.60%	6.30%	12.60%
CURE - Cancer research	1%	0.5%	1%
Hospital Uncompensated Care Payment Program	8.18%	4.09%	8.18%
Medical Assistance for Workers with Disabilities	30%	30%	15.12%
PACENET Program for Seniors	8%	0%	0%
Health-Related Purposes	22.72%	43.18%	45.60%

programs (reduced by one-third), CURE health research (reduced by one-half) and hospital uncompensated care payments (also reduced by one-half).

- For 2014/15, the General Assembly went with Gov. Corbett's proposal to reduce the allocation for MAWD by nearly half, suspend the allocation for PACENET, and nearly double the allocation for long-term care. Given the administration's recent decision to continue MAWD, some additional revenue will be needed to replace the tobacco funds that were redirected from the program.

As requested by Gov. Corbett, the enacted budget transfers \$225 million of assets and cash reserves in the Tobacco Settlement Fund and the Health Venture Investment Account to the Public School Employees' Retirement System (PSERS). The governor recommended making this one-time transfer of private equity investments and cash assets to partially offset the bill the state owes to PSERS for school employee pensions. (See Page 11.)

More detail on Tobacco Settlement Fund expenditures and revenues will be forthcoming in a separate Budget Briefing.

Lottery Fund

The enacted 2014/15 budget spends \$1.438 billion of Lottery Fund revenues on senior programs, which is \$151.2 million more than 2013/14. Very little of this increase is for new or expanded programs. Rather the increase is primarily due to shifting Medicaid expenditures in the Department of Public Welfare (DPW) from the General Fund over to the Lottery Fund.

As requested by the governor, \$130 million of Lottery Fund revenues are used to replace General Fund

revenues for the Aging Waiver program which is funded through DPW's Home and Community Based Services appropriation. In addition, the final budget uses another \$25 million of Lottery Fund revenues to pay for nursing home care, which is funded through DPW's Long-Term Care appropriation, and \$4.9 million to help pay for Medical Assistance Transportation.

The table below details 2014/15 Lottery Fund expenditures by agency and program. Expenditures for programs administered by the Department of Aging and the Department of Public Welfare are appropriated from the Lottery Fund as part of the General Appropriations Act. Expenditures for programs administered by the Department of Revenue and the Department of Transportation are made by Executive Authorizations which do not require approval from the General Assembly.

Per the governor's request, \$14 million of Lottery Funds are budgeted to expand home and community-based services for 2,468 seniors in 2014/15.

- \$2.5 million is for PENNCARE in the Department of Aging, including \$1.1 million to provide services to 500 individuals on the OPTIONS waiting list and nearly \$1.4 million to provide attendant care services for an additional 204 older Pennsylvanians.

Lottery Fund Budgeted for Senior Programs <i>(\$ Amounts in Millions)</i>	2013/14	Final 2014/15	Change
Department of Aging:			
PennCARE	\$275.2	\$295.4	\$20.2
Pre-Admission Assessment	\$10.7	\$10.7	-
Caregiver Support	\$12.1	\$12.1	-
Pharmaceutical Assistance Fund Transfer	\$190.0	\$155.0	-\$35.0
Grants to Senior Centers	\$2.2	\$2.2	-\$0.2
Alzheimer's Outreach	\$0.3	\$0.3	-
Department of Public Welfare:			
Medical Assistance Long-Term Care	\$309.1	\$334.1	\$25.0
Home and Community Based Services	\$21.0	\$162.6	\$141.6
Medical Assistance Transportation	\$0.0	\$4.9	\$4.9
Department of Revenue:			
Property Tax and Rent Rebate	\$292.4	\$280.6	-\$11.8
Department of Transportation:			
Shared Ride	\$81.0	\$86.0	\$5.0
Free Transit	\$93.0	\$94.4	\$1.5
TOTAL	\$1,286.8	\$1,438.2	\$151.2

- \$11.6 million is for Home and Community Based Services in DPW, so that an additional 1,764 seniors will receive Aging Waiver services.

Gov. Corbett's 2014/15 budget proposal assumed the Pennsylvania Lottery would be expanded to include Keno and assumed legislation would be enacted to extend relief from its 30 percent profit mandate. This relief, provided through a temporary reduction in the profit mandate to 27 percent, has given Lottery the ability to offer games that maximize profits for senior programs. This 27 percent profit mandate, which has existed under special legislative authority since 2008, is set to expire after June 30, 2015. Earlier this spring the House of Representatives passed House Bill 2110, which would permanently lower the profit margin to 25 percent; however, this bill is still awaiting passage by the Senate.

More detail on Lottery Fund expenditures and revenues will be forthcoming in a separate Budget Briefing.

Transportation

The 2014/15 budget includes \$5.4 billion in state funding for the Department of Transportation, an increase of \$952 million, or 21 percent.

- Road and bridge improvements: \$627 million, including \$432 million in current revenues and \$195 million in bond proceeds;
- Public transportation: \$258 million, including \$210 million for capital improvements and \$48 million for operating; and
- Multimodal transportation: \$67 million.

These increases reflect anticipated enhanced revenues for highway, bridge, and public transportation funding related to new funding generated pursuant to Act 89 of 2013. State funding increases are offset by a \$105 million annual decrease in federal grants due to the declining solvency of the federal Highway Trust Fund.

In addition, the enacted budget eliminates \$896,000 for photo ID cards. In January 2014, the court struck down the requirement that mandated voters show photo identification at the polls. The funding associated with this requirement is no longer necessary.

Enhanced Transportation Funding

In the fall of 2013, the General Assembly passed a comprehensive and sustainable \$2.4 billion transportation funding package, known as Act 89 of 2013, to rebuild or improve 7,000 bridges and more than 10,000 roadway miles, and to adequately fund public transportation.

Act 89 eliminated the 12-cent, at-the-pump liquid fuels tax and replaced it with an equivalent increase of the oil company franchise tax. This tax, which is levied on oil companies based on the wholesale price of gas, and other fee increases funding the infrastructure improvements had not been adjusted for nearly 20 years.

By year five of the phase-in (2017/18), the initiative will annually provide:

- \$1.8 billion to fix the state's crumbling roads and structurally-deficient bridges;
- Nearly \$500 million for the state's public transportation systems; and
- Roughly \$140 million for rail freight, aviation, ports, intercity rail, and other multimodal transportation.

Law Enforcement, Public Safety & Justice

State Police

As compared to 2013/14, the budget increases the general government operations for the State Police by \$13.3 million in its General Fund appropriation, and by \$45.9 million in its Motor License Fund appropriation.

The governor's budget proposal already assumed additional funding for four additional cadet classes, for a potential total of 350 cadets, which is the maximum number of classes that the State Police can support in a fiscal year. Therefore, it is unclear why the budget includes these additional funds for the State Police.

Currently, the State Police complement is about 500 troopers under authorized levels. In addition, about 1,000 State Troopers are eligible for retirement.

The budget cuts the Gun Checks appropriation, funded by the General Fund, by \$1 million as compared to 2013/14; however, the budget

increases the Firearms Records Check Fund, a restricted account, by \$1 million. This is the same as the governor's proposal.

The balance of the State Police's funding includes an increase of \$10.9 million in its General Fund appropriation and an increase of \$41.5 million in its Motor License Fund appropriation, as compared to 2013/14. This is a combined increase of \$52.5 million as compared to 2013/14.

The total appropriations (General Fund and Motor License Fund) for the State Police in the budget for fiscal year 2014/15 is \$886.2 million.

Department of Corrections

The budget funds the Department of Corrections' appropriations at slightly more than \$2 billion.

The Department of Corrections' appropriations increase by \$61.2 million, or 3.1 percent, after considering \$56.5 million in supplemental appropriations for 2013/14.

Board of Probation & Parole

The budget increases funding for the Board of Probation and Parole by \$14.8 million, or 10.4 percent, as compared to 2013/14.

Commission on Crime & Delinquency (PCCD)

The budget increases funding for PCCD by \$52,000, or 1.3 percent, as compared to the available year, and funds it at \$4 million.

The budget includes \$4.6 million for the **Violence Prevention Programs**, which is \$4,000 more than 2013/14.

The budget includes \$18.2 million for the **Intermediate Punishment Treatment Programs**, which is the same as 2013/14. However, this is \$2 million less than the governor proposed in his February budget.

The budget includes \$18.9 million for **Juvenile Probation Services**, which is the same as 2013/14. However, this is \$2.5 million less than the governor's proposal.

Judiciary

The budget funds the Judiciary at \$317.4 million, which is the same as in 2013/14 and the governor's

proposal. However, this budget leaves the Judiciary about \$25 million short of its need.

Emergency Management Agency

The budget creates a new \$3 million Local Municipal Emergency Relief appropriation and earmarks \$1 million for a provider of emergency services. The remaining \$2 million will be used to create a state program to provide assistance to individuals and political subdivisions directly affected by natural and man-made disasters. Gov. Corbett did not veto this new, legislatively added appropriation, but he stated that unspecified additional legislative earmarks would "be placed in budgetary reserve to give his administration time to review the program and its intended outcomes."

The 2014/15 budget relies on a \$30 million transfer from the **Volunteer Companies Loan Fund** to the General Fund. The commonwealth provides assistance to volunteer fire, ambulance, and rescue squad companies in two separate ways.

- First, the Volunteer Companies Loan Fund provides low interest loans for the purpose of purchasing and modernizing apparatus, facilities and equipment.
- Second, the Fire Company and Volunteer Ambulance Service Grant Program makes funding available for facilities, equipment, debt reduction, and training. The grant program is funded through a \$5 million transfer from the Property Tax Relief Fund and a \$25 million transfer from the State Gaming Fund. Gov. Corbett's proposed budget indicated that these transfers to the grant program would continue in 2014/15.

Bond referenda in 1975, 1981, 1990, and 2002 authorized a total of \$100 million of bonds to be issued as seed money for the Volunteer Companies Loan Fund. The Office of the State Fire Commissioner administers the Volunteer Companies Loan Fund as a revolving loan fund, meaning the fund is replenished as loan recipients pay back their loans, thus allowing additional loans to be awarded.

As of June 30, 2014, the Volunteer Companies Loan Fund had had over \$70 million in assets. In light of this surplus, the General Assembly passed Act 129 of 2013 which increased the loan amount, loan periods

and the number of loans allowed for emergency service providers. The changes in Act 129 were carefully calculated, based on the fund's balance, so that the state could provide more financial services while maintaining the fund's long-term solvency.

Diverting \$30 million from the Volunteer Companies Loan Fund makes the Act 129 changes unsustainable in the long-run, creating a future problem for Pennsylvania's volunteer fire, ambulance and rescue squad organizations. Equally concerning is Gov. Corbett and the Republican majority's willingness to disregard the will of the voters who approved the incurring of indebtedness to purchase life-saving apparatus, equipment, and facilities - not to balance the General Fund.

Department of Military & Veterans' Affairs

The budget includes \$119.9 million for Military and Veterans Affairs, which is \$1.9 million less as compared to 2013/14.

Environment

Department of Environmental Protection

The 2014/15 budget includes \$139 million for the Department of Environmental Protection (DEP), an increase of \$11.5 million, or 9.0 percent, compared to 2013/14. However, the funding increase only serves to offset a \$10.2 million reduction in federal indirect dollars available to the department.

The final budget cut Pennsylvania's member contribution to the **Delaware River Basin Commission** (DRBC) by \$500,000, or 54 percent. DRBC is a regional water resources regulatory agency responsible for water quality protection, water supply allocation, permitting, water conservation initiatives, drought management, flood loss reduction, recreation, and watershed planning within the Delaware River basin. In addition to fees, fines and grants, the DRBC is funded through member contributions from Pennsylvania, New York, Delaware, New Jersey, and the federal government, based on a fair share formula which takes into account the benefits each jurisdiction receives related to the commission's workload.

Pennsylvania is not the only DRBC member state to renege on its fair share contribution, further compounding the problem. DRBC is especially

important to Pennsylvania because even though only 14 percent of Pennsylvania's total land area lies within the basin, roughly 43 percent of the commonwealth's total population lives in the basin. Additionally, the Delaware River and its largest tributary, the Schuylkill River, provide all of Philadelphia's water supply. The cuts in funding for DRBC will result in fewer meetings, longer delays for project approvals, and possibly a reduction in staff.

The 2014/15 budget transfers \$6.2 million from the **Alternative Fuels Incentive Fund** to the General Fund. The Alternative Fuels Incentive Grant (AFIG) program provides grants to applicants seeking to deploy alternative fuel vehicles, fleets and technologies to improve air quality in the commonwealth. The AFIG fund receives 0.25 mills of the utilities' gross receipts tax and will carry forward an unencumbered balance of \$16 million into 2014/15.

The enacted budget maintains the General Fund contribution to **Conservation Districts** and increases funding for the Environmental Hearing Board by 4.5 percent compared to 2013/14. Gov. Corbett vetoed the entire \$700,000 for **Sewage Facilities Planning Grants**. In 2013/14, the Sewage Facilities Planning Grants received \$200,000. The **Flood Control Projects** and **Sewage Facility Enforcement Grants** continue to receive zero funding.

Department of Conservation & Natural Resources

In Pennsylvania, there are 12 state Heritage Areas that highlight the commonwealth's history in the nation's development. The Department of Conservation and Natural Resources (DCNR) works with the coordinating organization, HeritagePA, to maintain sustainable and attractive communities and to create outdoor connections for citizens and visitors. The 2013/14 budget provided \$2.25 million for the Heritage and Other Parks appropriation. From this, each Heritage Area received \$183,500 and the remaining \$48,000 was awarded to HeritagePA.

The enacted 2014/15 budget appropriated \$2.75 million for Heritage and Other Parks with \$500,000 specifically earmarked for Washington Crossing Historical Park, which DCNR will now help operate alongside the PA Historical and Museum Commission. However, Gov. Corbett vetoed

\$500,000 from Heritage and Other Parks, making the final appropriation flat-funded with 2013/14 at \$2.25 million.

On May 23, 2014, Gov. Corbett issued Executive Order 2014-03 rescinding former Gov. Rendell's moratorium on any further leasing of state lands in favor of a less restrictive moratorium. As long as no additional surface disturbance occurs, new leasing may take place in state forests and, for the first time, in Pennsylvania's state parks. In his proposed budget, Gov. Corbett guesstimated that this non-surface disturbance leasing would generate \$75 million in upfront revenues which he proposed transferring to the General Fund.

As with previous leases, all rents and royalties collected through oil and gas leases of commonwealth-owned land will be deposited into the Oil and Gas Lease Fund. Gov. Corbett's executive order directs DCNR to exclusively invest the future royalty payments from additional drilling in improving park and forest infrastructure, acquiring new lands, or purchasing mineral rights. These spending initiatives however, are already an eligible and preferred use of the Oil and Gas Lease Fund revenues, and, ironically, Gov. Corbett is the biggest offender of misusing the Oil and Gas Lease Fund. Each successive budget, Gov. Corbett has funneled more and more Oil and Gas Lease Fund dollars to

DCNR to pay for General Fund cuts to the department. See chart below.

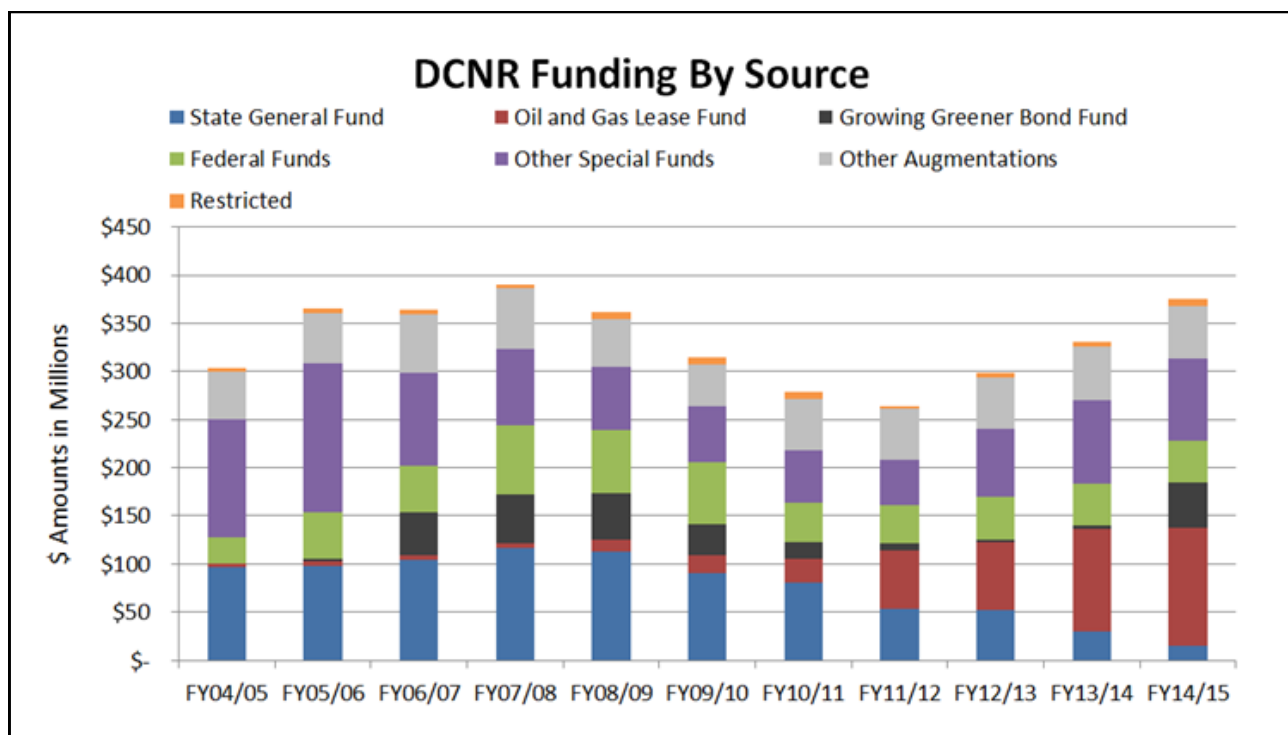
For example, Gov. Corbett cut state General Fund support for parks and forest operations by a combined \$56 million, or 94 percent, since taking office. In 2014/15, only 4 percent of DCNR's total budget comes from state General Fund revenues compared with 29 percent in 2010/11.

The 2014/15 budget includes a \$123 million transfer from the Oil and Gas Lease Fund to DCNR, up from \$116 million in 2013/14 and \$68 million in 2012/13. Additionally, the final 2014/15 budget transfers \$95 million from the Oil and Gas Lease fund to the General Fund. It is unclear whether the \$75 million guesstimate for non-impact drilling was revised upward, or whether the Republican majority further diverted royalty funds. Including the Act 13 transfers, \$253 million will be transferred from the Oil and Gas Lease Fund in 2014/15.

Other

Department of Agriculture

The budget funds Agriculture at \$126.9 million. This is about \$3 million more as compared to 2013/14, because of increases in the department's general government operations, Agricultural Excellence, and the Agricultural Promotion, Education and Exports appropriations.



The budget also provides level funding compared to 2013/14 for the **Transfer to Agricultural College Land Scrip Fund** (Penn State University) appropriation at \$46.2 million.

The budget transfers nearly \$18 million from the **Race Horse Development Fund** to the Animal Health Commission, the Pennsylvania Veterinary Laboratory System, the State Farm Products Show Fund and Pennsylvania Fairs.

The budget provides level funding for the **State Food Purchase Program** at \$17.4 million, as compared to 2013/14.

Department of Community & Economic Development

Each year since taking office, Gov. Corbett has supported a variation of the same proposal to consolidate several business financing programs into a single pool of assets in order to create a more customer friendly environment for Pennsylvania businesses seeking access to capital. First, it was called the Liberty Loan Fund, then the Liberty Financing Authority, followed by the Pennsylvania Business Development Authority. These proposals failed to gain support in the legislature for various reasons - because of involving the Commonwealth Financing Authority, creating another debt-issuing authority, or losing program identity.

The governor's latest proposal, which addressed many of the previous concerns, faces a new setback. This proposal merges the **Small Business First Fund** (SBF) – including the Community Economic Development Fund, Export Financing Program, and Pollution Prevention Assistance Account – and the **Machinery and Equipment Loan Fund** (MELF) with the **Pennsylvania Industrial Development Authority** (PIDA). This move would give PIDA flexibility to respond to program demands and allow for more efficient management of the programs. However, the enacted 2014/15 budget relies on an \$85 million transfer from the Machinery and Equipment Loan Fund and a \$95 million transfer from the Small Business First Fund to help balance the General Fund. The transfers from MELF and SBF constitute 46 percent and 63 percent, respectively, of the funds' total assets as of the end of the first quarter of 2014. The effect on these programs will be devastating, as little capital will be left.

The budget reinstates a number of programs the governor eliminated in his budget proposal. The governor did not veto these appropriations; however, he indicated that they may be placed into budgetary reserve to ensure revenue collections are on target before releasing the funds.

- Tourism, Accredited Zoos - \$550,000
- Infrastructure Technical Assistance - \$1.75 million
- Supercomputer Center Projects - \$500,000
- Powdered Metals - \$100,000
- Rural Leadership Training - \$100,000

In addition to this list, the General Assembly created a **Community Development Financial Institution Grants** appropriation in the amount of \$250,000 and increased the **Intergovernmental Cooperation Authority - 2nd Class Cities** appropriation by \$322,000. Gov. Corbett vetoed all of the Community Development Financial Institution Grants appropriation and \$300,000 of the Intergovernmental Cooperation Authority – 2nd Class Cities appropriation before signing the budget.

When local governments are facing potential financial insolvency, the **Municipalities Financial Recovery program** – otherwise known as Act 47 – assists through grants and no-interest loans, offers extensive technical assistance and helps prepare and implement comprehensive recovery plans. Gov. Corbett increased the appropriation for the Act 47 program from \$925,000 to \$12 million in 2012/13, but funding has decreased each year since. The final 2014/15 budget provides \$4 million to the Act 47 program, down \$3 million from the \$7 million provided in 2013/14.

The **Commonwealth Financing Authority** (CFA) issues bonds and administers programs to support new economic development in Pennsylvania. The commonwealth pays a large part of the CFA's debt service through an appropriation in DCED's budget. In 2013/14, the CFA's \$78 million appropriation was augmented by a \$9.5 million transfer of unexpended proceeds under the Alternative Energy Investment Act in order to fully fund the necessary debt payment. In 2014/15, an additional \$8.7 million from these same proceeds will be transferred to the CFA to go along with the \$77.8 million appropriation.

In his first budget, 2011/12, Gov. Corbett combined the Accessible Housing, Housing and Redevelopment Assistance, and New Communities (the program containing Main Street, Elm Street, and Enterprise Zone programs) appropriations into the **Keystone Communities** appropriation. The final 2014/15 budget continues the Republican's cut to this program to the point where funding for Keystone Communities is now \$21 million, or 78 percent, lower than it was in 2010/11.

In his first budget, 2011/12, Gov. Corbett also consolidated four appropriations into the **Partnerships for Regional Economic Performance** (PREP) appropriation – Industrial Development Assistance, Local Development Districts, Small Business Development Centers, and Industrial Resource Centers. The final 2014/15 budget provides level funding for these programs; however, funding for the PREP program remains \$3.4 million, or 22 percent, below the 2010/11 level.

The budget cut the **Pennsylvania First** appropriation by \$17.8 million, or 47 percent, compared to 2013/14. It is unclear how this reduction will affect the Workforce and Economic Development Network (WEDnetPA) which receives funding through this appropriation. WEDnetPA is a job training alliance between 11 State System Universities, 14 community colleges, and several technical centers. WEDnetPA received \$10.4 million in 2010/11, \$8 million in 2011/12, and \$5 million in both 2012/13 and 2013/14 from the Pennsylvania First appropriation. It is unclear at this time how much of the \$20 million PA First appropriation will be dedicated to WEDnetPA in 2014/15.

Lastly, within DCED, the 2014/15 budget cut funding for **Discovered and Developed in PA** by \$4.9 million, or 50 percent; **World Trade PA** by \$1.5 million, or 20 percent; **Marketing to Attract Business** by \$1.4 million, or 42 percent; and **Marketing to Attract Tourists** by \$171,000, or 2.3 percent, compared to 2013/14.

Department of Labor & Industry

The budget provides no increase for the transfer to the **Vocational Rehabilitation Fund**, which is funded at \$40.47 million. The governor's proposed \$1 million initiative to provide on-the-job training for young people with disabilities was not included in the final budget.

The budget provides level funding for many other programs under Labor and Industry, including **Centers for Independent Living** (\$1.9 million), **Supported Employment** (\$397,000), **New Choices/New Options** (\$500,000), **Industry Partnerships** (\$1.8 million), **Assistive Technology Devices** (\$400,000) and **Assistive Technology Demonstration and Training** (\$399,000).

The budget cuts funding for **Keystone Works** by 90 percent to \$100,000; however, this level of funding is much more in line with what is needed because program participation has been limited.

Department of General Services

The budget includes a \$496,000 appropriation for **Capitol Fire Protection**. These funds offset the costs to the City of Harrisburg for providing fire protection services for all state-owned buildings located within the city. In 2013/14, to supplement the Capitol Fire Protection appropriation, the City of Harrisburg received a \$4.504 million grant from the Dept. of Community and Economic Development's (DCED) Center for Local Government Services appropriation. The administration has stated that the same funds from DCED will be available to Harrisburg again in 2014/15.

In February 2014, Gov. Corbett proposed a slight increase for the Rental and Municipal Charges appropriation which pays for the commonwealth's lease obligations, operating costs, and tax commitments for various leased properties. The legislature added \$5 million to the appropriation, bringing the total to \$29.2 million. This increase was earmarked for distribution by the leaders of both chambers of the General Assembly; however, Gov. Corbett vetoed the \$5 million increase.

Historical & Museum Commission

The 2014/15 budget level funds the **Cultural and Historical Support** appropriation at \$2 million. In the 2012/13 fiscal year, \$1.15 million was included in the Historical and Museum Commission's General Government Operations appropriation for grants to non-state-owned museums. In the 2013/14 budget, the amount available for these grants was increased to \$2 million and given its own appropriation called Cultural and Historical Support.

Row Offices

Office of Attorney General

In the budget, the Office of Attorney General receives a \$5 million increase, compared to 2013/14; however, this leaves the Attorney General about \$7 million short of her budget request for 2014/15.

The **Drug Law Enforcement** appropriation receives an increase of \$1.9 million, compared to 2013/14.

The **Drug Strike Task Force** appropriation receives a slight increase of \$262,000, compared to 2013/14.

Tobacco Law Enforcement receives an increase of \$300,000, compared to 2013/14.

Ironically, funding for the **Child Predator Interception Unit** is decreased in the budget by \$250,000.

Office of Auditor General

Overall, the budget flat funds the department at \$44.8 million compared to 2013/14.

The department has undertaken a much-needed initiative to update and modernize the information

technology used within the office. No investment had been made in this area in many years. Last year, the department received \$1.75 million to begin this initiative – well below the need of \$6 million. This year, the department requested \$6.2 million to continue this program; however, only \$1.75 million was appropriated for 2014/15.

Treasury Department

The budget provides \$36 million for Treasury general operations, which is an increase of \$3.8 million, or 11.8 percent, compared to 2013/14. For the most part, this increase is intended to be used for “increased processing and advertising costs for the unclaimed property program,” which was substantially changed in the Fiscal Code.

The **new law shortens the holding periods for unclaimed property from five years to three years** in most cases so that the property will escheat to the state sooner than under previous law. The 2014/15 budget assumes \$150 million in new one-time revenue from shortening the holding periods.

House Appropriations Committee (D)

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