



A Quick Glance of Key Issues from the
House Appropriations Committee

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2011/12 Governor's Executive Budget Proposal

On March 8, 2011, Governor Tom Corbett presented his 2011/12 budget proposal to the General Assembly. **The Governor's 2011/12 Executive Budget represents a total Commonwealth operating budget of \$63.6 billion in state (General, Special and Other funds) and federal funds.** This represents a decrease of 4.3 percent compared to the updated 2010/11 budget of \$66.5 billion.

Often policymakers focus on General Fund expenditure trends; however, since funding for major programs (such as Medical Assistance) can straddle multiple funds, **focus on any single fund instead of total operating funds can significantly distort the facts.** The importance of examining combined operating funds is exemplified in Corbett's proposal with the disappearance of federal offset funds and the transfer of the Tobacco Settlement Fund and some of its programs to the General Fund. The value of examining total operating funds also is apparent when making historical comparisons. For example, **a comparison between the Ridge/Schweiker and Rendell administrations reveals that annual real expenditure growth (adjusted for inflation) under Rendell was actually less than growth during the Ridge/Schweiker Administration.**

Governor Corbett's budget proposal includes **large expenditure cuts of nearly \$2.9 billion**, and includes a **\$540.1 million increase in revenue associated with the General Fund.** Altogether, total state expenditures (General, Special and Other funds) of \$41.5 billion increase by \$1.5 billion or 3.8 percent compared with 2010/11 (\$40.0 billion). However, remember that the 2010/11 budget utilized over \$2.7 billion in federal funding to offset state expenditures.

While state spending is reduced and state taxes do not increase, **Gov. Corbett's proposal will impact the checkbooks of Pennsylvanians by merely shifting costs to other people and entities throughout the Commonwealth.** As policymakers consider Corbett's proposal, they must carefully examine the impact it will have on their constituents, for example:

- With funds for county-based services significantly reduced but mandates still in place, how will counties react? With local tax increases? By choosing to not fund "non-mandatory" preventive programs, such as after-school programs, in order to pay for statutorily mandated services?
 - When faced with significant cuts in education funding, how will local school districts react? Will they seek property tax increases? Will research-based early childhood programs be eliminated? Will class sizes increase? Will jobs and education services be eliminated?
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- Will drastic cuts to higher education lead to increased tuition and reduce the ability of Pennsylvania's students to attend post-secondary education?
 - Safety net services, such as homeless assistance, are in greater demand during tough economic times. Without adequate government support for these services, where will people turn when in need?
 - Will reductions in state job complement affect the ability of the Commonwealth to enforce laws and regulations? For example, with the continued growth in Marcellus Shale gas drilling; will the proposed reduction in staff under the Department of Environmental Protection affect the ability to perform rigorous inspections? Will this endanger the health and safety of the general public and the employees of the drilling units?
 - What impact might cuts to health care provider payments mean to access and quality of care in Pennsylvania?
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For a quick reference, key points regarding the 2011/12 Executive Budget follow below. A more detailed briefing regarding the revenue and expenditure assumptions included in Gov. Corbett's proposal will be available shortly. In addition, the House Appropriations Committee (D) will provide additional briefings on specific issues and program areas, as more details become available.

Governor Corbett's budget proposes significant cuts to General Fund appropriations compared with the 2010/11 budget. It only increases funding in a handful agencies and eliminates 1,500 state-funded jobs. In addition, Gov. Corbett's proposal includes the **elimination of 103 line-item appropriations.** Gov. Corbett's 2011/12 budget **also includes the "alignment and consolidation" of numerous programs (line-item appropriations)** within the Executive Offices (commissions), Pennsylvania Commission of Crime and Delinquency, Department of Agriculture, Department of Community and Economic Development, Department of Health, and Judiciary. The consolidation of appropriations makes comparisons to prior years extremely difficult.

- Some of the **hardest hit agencies in terms of spending reductions** under Corbett's proposal fall under Education (including Higher Education and Pennsylvania Higher Education Assistance Agency); Department of Community and Economic Development; Labor and Industry; Pennsylvania Housing Finance Agency (Homeowners Emergency Mortgage Assistance); and Executive Offices.
- Agencies receiving **significant program funding increases over the prior year** under Gov. Corbett's proposal include:
 - Treasury by nearly \$90 million, reflecting constitutionally required General Obligation Debt Service payments and Information Technology Modernization funding to replace the Treasury's aging computer systems.

- Department of Corrections by \$186 million, largely to replace federal fiscal stabilization funds.
 - Department of Health by \$61.5 million; however, this is due to the Corbett Administration's proposal to transfer all Tobacco Settlement revenues and tobacco-funded programs to the General Fund.
 - Department of Military and Veterans Affairs by \$19.7 million, for Veteran's Homes and an increased transfer to the Educational Assistance Program Fund.
 - Department of Public Welfare (DPW) by \$2.4 billion, largely reflecting the end of enhanced ARRA FMAP, inflationary growth in programs, and the proposal to transfer all Tobacco Settlement revenues and tobacco-funded programs to the General Fund. Note, as anticipated, **Gov. Corbett's budget also includes numerous cost-savings initiatives, program reductions, and funding eliminations within DPW.**
 - Department of Revenue by \$7.9 million, providing funding for computer technology enhancements.
 - Pennsylvania Board of Probation and Parole by \$7.5 million, largely reflecting an initiative to secure additional parole officers to address the backlog of inmates who are eligible for parole.
 - Pennsylvania State Police by \$100 million, including funding for two cadet classes in 2011/12, increasing the number of state troopers to 4,400.
- More detail on expenditure levels for individual appropriations will be available in the near future in our spreadsheet document ***Governor's Proposed 2011-12 Budget: Line Item Appropriations.***

Governor Corbett's 2011/12 budget proposal does not include any tax increases. However, Corbett's proposed budget includes **other proposals generating a net of \$540.1 million in additional revenue to the General Fund.**

- Film Production Tax Credit – A decrease of \$15 million to the \$75 million annual cap is expected to generate \$5.1 million in 2011/12.
- Research and Development Tax Credit – An increase of \$15 million to the \$40 million annual cap is expected to reduce revenue by \$200,000 in 2011/12.
- Job Creation Tax Credit – A decrease of \$12.4 million to the \$22.5 million annual cap is expected to generate \$4.2 million in 2011/12.
- Non-tax revenue transfers to the General Fund of approximately \$531 million are proposed by transferring all Tobacco Settlement Fund revenues, redirection of the Moving Vehicle Surcharge (from the Catastrophic Loss Benefits Continuation Fund), and a transfer from PHEAA.

As mentioned previously, a major component of Governor Corbett's budget is the **recommendation to transfer the Tobacco Settlement Fund to the General Fund** – this includes moving all tobacco revenues together with most of the tobacco-funded programs.

- In his proposal, Governor Corbett proposes to make the **following key changes in the treatment of tobacco funds**:
 - First, all payments received by tobacco companies would be deposited into the General Fund.
 - Second, instead of tobacco funds being allocated to programs based on the allocation percentages that are currently in the Tobacco Settlement Act (Act 77 of 2001); they would be appropriated annually by the General Assembly.
 - Third, beginning with 2011/12, funds available to spend would no longer be based on actual tobacco payments received in the prior year, but would instead be based on tobacco payments anticipated during the budget year. The impact of this timing change will be to double up the tobacco funds available to spend in 2011/12 –including the payments received in 2010/11 (\$324 million) plus payments anticipated in 2011/12 (\$360 million).
 - Fourth, with respect to those Lottery Fund programs that were previously supported with tobacco funds in accordance with Act 77 – i.e., transfers to the Pharmaceutical Assistance Fund and funding for Home and Community-Based Services -- additional Lottery Funds will be used to replace the tobacco funds. To keep the Lottery Fund whole, the amount of replacement revenue will, in turn, be deducted from the amount appropriated from the Lottery Fund to MA Long Term Care.
- Corbett's budget proposal for 2011/12 **spends \$684 million in tobacco funds** as follows:
 - \$324 million is appropriated through the General Fund for programs previously supported with tobacco funds, including:
 - \$74 million to the Department of Health for Health Research Grants (\$59.9 million) and Tobacco Use Prevention and Cessation Grants (\$14.2 million).
 - \$247 million to the Department of Public Welfare for MA Long Term Care (\$152.7 million), Uncompensated Care Payments to Hospitals (\$31.5 million), and Medical Assistance for Workers with Disabilities Program (\$63 million).
 - \$3 million to the Department of Community and Economic Development for Life Sciences Greenhouses.
 - \$140 million is transferred to the General Fund. Note these funds are not earmarked for any specific purpose.

- \$220 million is transferred to a new Liberty Loan Fund in the Department of Community and Economic Development.
- Note that Gov. Corbett's proposal **does not fund adultBasic health insurance**, which expired on February 28, 2011.

Governor Corbett's 2011/12 budget proposal **includes major budget, program and policy changes within the Department of Public Welfare**. The Executive Budget requests \$11.2 billion in state General Funds for the Department of Public Welfare (DPW). This represents an **increase of \$2.35 billion from fiscal year 2010/11, which includes a \$250 million state supplemental request**. As explained above, this increase includes \$247 million for programs that were previously funded through the Tobacco Settlement Fund.

- **The most significant cost driver in the 2011/12 DPW budget is the expiration of the enhanced ARRA FMAP**, which reduced the need to spend state General Fund dollars on Medical Assistance and other Medicaid-related programs (including the MA transportation program and community-based waiver programs for disabled individuals) through June 2011. The ARRA FMAP not only resulted in increased federal Medicaid reimbursements for these programs, it also yielded significant savings in the monthly Medicare Part D "clawback" payments that Pennsylvania is required to pay the federal government when the Obama Administration decided last February to apply the ARRA FMAP to these payments.
- The following **factors increase DPW spending** in the proposed 2011/12 budget.
 - The need to replace federal Medicaid matching funds received under the enhanced ARRA FMAP in 2010/11 (\$1.75 billion).
 - The impact of non-recurring 2010/11 "clawback" savings related to the ARRA FMAP (\$250 million).
 - The proposed transfer of tobacco revenues and tobacco-funded programs to the General Fund (\$247 million).
 - MA costs associated with a projected increase in MA recipients and utilization (\$213 million).
 - Rising health care costs in the MA program (nearly \$175 million).
- As anticipated, Governor Corbett is **proposing to reduce state spending by a net total of \$460 million through a combination of cost containment initiatives (\$364 million) and the elimination of DPW line items (\$96 million)**. The cost containment initiatives impact Medical Assistance, disability programs, child welfare, and employment/training programs for low-income individuals. The eliminated appropriations cut funding for hospitals, medical schools, and human services.

- The chart below provides an itemization of \$407 million in major cuts identified by the House Appropriations Committee (D) in the proposed 2011/12 DPW budget.

Proposals to Cut DPW Spending <i>(dollars in millions)</i>	
	State Savings
<u>MA Benefits/Services</u>	
Reduce optional pharmacy and dental benefits	\$46.9
Changes in behavioral health services	\$10.0
Change community-based waiver services for seniors	\$18.2
<u>MA Provider Payments:</u>	
Reduce supplemental payments to hospitals	\$86.7
Eliminate funding for Burn Centers, Trauma Centers, Critical Access Hospitals, and Obstetric & Neonatal Services	\$26.3
Revise budget adjustment factor used for nursing home rates	\$22.9
Reduce managed care Pay-for Performance payments	\$20.0
<u>Other MA Initiatives</u>	
Limit county use of managed care behavioral health reinvestment funds	\$11.0
Expand nursing facility recovery audit program	\$5.4
Expand provider audits, claims review and recovery efforts in fee-for-service system	\$3.3
<u>Medical School Funding</u>	
Eliminates Academic Medical Center line which funds medical schools at University of Pittsburgh, Hershey (Penn State) & Temple	\$19.2
Eliminates funding for Physician Practice Plans line which funds medical schools at Thomas Jefferson, Drexel & Penn	\$9.7
<u>Community-Based Disability Programs:</u>	
Changes to ID Waiver Program	\$38.0
Changes to Attendant Care	\$13.6
Changes to Services to Persons with Disabilities	\$17.2
<u>Human Services Programs:</u>	
Reduce funding for employment & training programs	\$29.2
Eliminate funding for Human Services Development Fund	\$23.5
Eliminate funding for Community-Based Family Centers	\$6.3
TOTAL STATE SAVINGS	\$407.3

- The following is a brief description of the cuts by category listed in the chart above.
 - Although no individuals would lose MA eligibility, Governor Corbett **proposes to reduce optional benefits such as pharmacy and dental for adults**. Additionally, unspecified “reforms” are proposed to **reduce spending on home and community-based services**

- for seniors and “evidence-based” behavioral health services are proposed for children and youth.** Altogether, these changes to MA benefits and services are expected to save the state \$75 million.
- Nursing homes, hospitals and managed care organizations are impacted by **proposed cuts in provider payments** that total \$156 million. In particular, hospital payments are cut \$113 million - this includes an \$86.7 million reduction in the new supplemental payments that were to be funded under the statewide hospital assessment.
 - **Changes to the community-based services for disabled individuals** are expected to save \$68.8 million. With respect to waiver programs for persons with intellectual disabilities (previously referred to as mental retardation), the **budget proposes to revise service definitions and to limit reimbursement to group home providers for federally ineligible room and board costs.** The proposal also includes **unspecified “reforms” to the attendant care program and services to persons with physical disabilities.**
 - **Cuts to human service programs** total \$59 million. This includes **state funding reductions in programs relating to TANF**, citing savings generated from “rightsizing” employment and training contracts.
 - **Medical School funding is cut by \$29 million in state funds** (\$73 million state and federal funds).
 - **Other MA initiatives are expected to save \$13.6 million.**

The following is a discussion of **other notable budget, program and policy issues** in Corbett’s proposal.

- Gov. Corbett’s budget proposes a **significant redesign of the Department of Community and Economic Development** through the elimination, reduction, and consolidation of multiple programs.
- Corbett’s proposal includes **significant funding reductions, eliminations, and policy proposals relating to Education programs in the Commonwealth.**
 - Corbett’s proposal reduces **PreK-12 education and library funding of nearly \$819 million or 8.2 percent.**
 - This includes a **reduction in the basic education subsidy of \$550 million, or 9.5 percent**, representing a rollback to the 2008/09 funding level.
 - In addition, the proposal eliminates funding for the Accountability Block Grant (\$259 million); Reimbursement of Charter Schools (\$224 million); and the Education Assistance Program (\$47.6 million).
 - Gov. Corbett proposes **major education policy changes in PreK-12 education** relating to: staff compensation, layoffs and tenure; voter referendum approval for any property

tax increase above the inflationary increase; school choice; and the establishment an independent state charter school authorizer.

- Gov. Corbett's budget proposal **drastically reduces funding for higher education**. This includes large cuts or eliminations in funding for institutions of higher education and the reduction or elimination of grants in the Pennsylvania Higher Education Assistance Agency.
- Under the **Department of General Services**, Corbett's proposal includes a **nine percent reduction in funding for Temporary Fleet Vehicles**.
- Act 50 of 2010 created the **Department of Drug & Alcohol Programs** and transferred existing funding for these programs from the Department of Health to the new department. Gov. **Corbett's proposal would maintain the program within the Department of Health**.
- Corbett's budget proposes that the Motor License Fund **retain 100 percent of vehicle fine revenue generated in municipalities where the State Police serves as the primary police force**.
- Gov. Corbett's proposal **does not address the transportation funding shortfall** worth \$3.5 billion.
- Gov. Corbett's budget proposes a **tax benefit this year to corporations by allowing 100 percent bonus depreciation**, which lowers the tax liability of larger corporate tax payers
- Gov. Corbett's budget proposal mentions a benefit to businesses by phasing out the **Capital Stock and Franchise Tax**. Note, however, that this proposal mirrors the current phase-out schedule contained in the Tax Reform Code of 1971 as amended by Act 48 of 2009.
- While Gov. Corbett claims to increase the **Educational Improvement Tax Credit (EITC)** to \$60 million in the current year and \$75 million in 2011/12, such increases are already set in statute by Act 48 of 2009 and Act 46 of 2010.
- Gov. Corbett's budget proposal includes the **creation of a Marcellus Shale Advisory Commission**, to be chaired by the Lieutenant Governor.
- Corbett's budget includes regulatory reforms to **significantly expand the authority of the Secretary of DCED to "expedite any permit or action pending in any agency where the creation of jobs may be impacted."**
- Corbett's budget, assumes that the General Assembly will enact what is commonly called "**tort or legal reform**." Corbett believes that the legal climate in Pennsylvania fosters frivolous personal injury lawsuits that hurt Pennsylvania businesses and their ability to create jobs. He contends that changes, such as ending joint and several liability or certificates of merit in product liability lawsuits, will lower costs to businesses, thereby creating jobs. Corbett's proposed reforms do not address the negative impact these proposals may have on injured Pennsylvanians or their ability to work.