



BUDGET BRIEFING

Report on Key Issues
HOUSE APPROPRIATIONS COMMITTEE (D)

JOE MARKOSEK, DEMOCRATIC CHAIRMAN

February 4, 2014



Governor's 2014/15 Executive Budget Proposal

Please note: This document, updated March 20, 2014, provides a quick overview of [Gov. Corbett's 2014/15 Executive Budget proposal](#). The House Appropriations Committee (D) will continue to review the budget proposal and provide briefings on specific issues and program areas, as more details become available.

Overview

Gov. Corbett's proposed 2014/15 state General Fund budget of \$29.4 billion increases state expenditures by \$926.8 million, or 3.3 percent.

In a desperate attempt to reverse the political damage from deep and devastating cuts to education and other critical programs over the past three years, **Gov. Corbett chooses to offset election-year spending by increasing DEBT in the state's retirement systems by nearly \$13 billion over the next three decades**. He cloaks this massive debt increase under the guise of pension "reform".

Further, Gov. Corbett chooses to pay for election-year spending with one-time funding sources, one-time program cuts and other undependable gimmicks that will leave the next governor's administration to foot the bill. The latest tabulation, based on a cursory scan of Gov. Corbett's 2014/15 budget, reflects at least \$1.2 billion of unsustainable or unpredictable funding sources, program cuts or other gimmicks.

Unsustainable Sources Used to Balance 2014/15 Budget	
One Month Payment Delay to Managed Care Organizations	\$394 Million
Tobacco Settlement Board Transfer to Teachers' Pension System	\$225 Million
Escheats – Shortens Holding Period for Unclaimed Property	\$150 Million
Expenditures for Home and Community-Based Services Shifted from the General Fund to the Lottery Fund	\$130 Million
Questionable Medicaid Savings from Healthy PA Proposal	\$125 Million
Leasing State Forest Land for Additional Drilling, Shifted from Oil & Gas Lease Fund to General Fund	\$75 Million
Tobacco Settlement Funds Redirected to Help Fund Nursing Homes	\$70 Million
Enhanced FMAP in 2014/15 (will not be available in 2015/16)	\$45 Million
TOTAL	\$1.2 Billion

The governor's budget proposal also includes \$74.75 million in one-time licensing fees from a yet-to-be-selected casino in Philadelphia. There is no guarantee this money will come in during the budget year, especially if there is an appeal.

After the budget hearings, we are not just concerned about whether these funds will recur, but also whether these funds will materialize at all. For example, the Executive Director of PSERS said the \$225 million transfer from the Tobacco Settlement Board to PSERS would not do much to solve the system's immediate cash flow needs and the system could get saddled with low-performing investments that it cannot sell easily or quickly. During his hearing, the Treasurer said the \$150 million estimate from shortening the holding period for unclaimed property from five to three years is a two-year estimate, not a one-year estimate. Additionally, the Secretary of the Department of Conservation and Natural Resources could not provide any substantiation for the \$75 million estimate from leasing state forest land for drilling (e.g. number of acres, what forests, etc.).

Of the \$1.2 billion from undependable sources, Gov. Corbett uses roughly \$927 million to pay for the General Fund spending increase and \$273 million to avoid further budgetary cuts. Stated differently, without these undependable sources, he would have to cut nearly \$300 million from the budget.

Because the budget increase is primarily funded with one-time sources, this level of spending is unsustainable for 2015/16. Therefore, the implications for the first year of the next governor's administration are that we could not even sustain the budget Gov. Corbett has proposed, let alone pay for cost-drivers that will reach hundreds of millions of dollars in additional spending. In addition to this, he proposes to burden generations to come with billions of dollars in additional debt from his pension proposal.

Gov. Corbett's proposal reduces or eliminates funding for many worthy programs that the legislature included in its 2013/14 budget. (See the [budget printout](#) for details.) Examples of affected program areas include: agricultural supports, health treatment, prevention and research, parks programs, economic development programs, job training programs and other services for citizens in need.

Missed Opportunities

During the last three years in office, Gov. Corbett has missed some REAL opportunities to move this state forward. He squandered hundreds of millions of dollars on very costly choices.

- Everyone wants to cut taxes, but only when we can afford to cut. At the expense of sustainable funding sources for education and other programs, Gov. Corbett **chooses** to continue corporate favors worth \$2.1 billion through the budget year (\$1.2 billion during his first three years and roughly \$881 million in 2014/15). These tax cuts have not created many family-sustaining jobs.
- Democrats are very concerned about the jobs picture and the cavalier way in which the governor chooses to take credit for **cutting public sector jobs**. Gov. Corbett likes to tout the number of **private** sector jobs created (142,700); however, when you subtract the 49,000 **public** sector jobs lost (including more than 20,000 jobs in education), net new jobs created is only 93,700. We are concerned about the **quality of those private-sector jobs** and question how many are family sustaining jobs. We know that 35,200 of the jobs are in food service and accommodations (e.g. hotel industry). Additionally, he actually brags about cutting state public servant positions by 3,029 or 4 percent since January 2011.
- Gov. Corbett continues to play a political game with Medicaid expansion, at the expense of savings to the state budget in the current year (2013/14) of more than \$90 million and in the budget year (2014/15) of \$320 million. Let's not forget the human cost of leaving a "select" group of poor out in the cold without access to affordable care – those NOT QUITE POOR ENOUGH to qualify for the current Medicaid program and those TOO POOR to qualify for a subsidy on the health insurance exchanges. Instead of opting for predictable budget savings and immediate health care for the poor, he **chooses** to base his budget on questionable Medicaid savings worth \$125 million from his "Healthy PA" proposal that he continues to negotiate with

the federal government; a proposal that he already changed just a week after the public comment period began.

- Gov. Corbett appears to finally express a commitment to provide the Lottery with the tools to expand upon its track record of successful profits, and asks the General Assembly to add Keno to the toolbox. He already wasted \$4.4 million on consultants and law firms trying to privatize the Lottery to a foreign company, and we are hopeful that he will finally abandon those efforts.
- Gov. Corbett does not base his budget on one-time funds from privatizing the liquor stores; however, he once again calls on the General Assembly to act on privatization. Additionally, his budget still chooses to ignore sustainable revenue sources worth \$125 million in the budget year from improving customer convenience, like expanding the number of stores that can be open on Sundays, and other efforts at making government work smarter.
- Gov. Corbett chooses to continue his support for the tobacco industry, refusing to recognize a sustainable revenue source worth \$57 million in the budget year from taxing smokeless tobacco, roll-your-own cigarettes and cigars. He continues the **dubious** distinction Pennsylvania has of being the **only** state that does not tax roll-your-own tobacco and smokeless and only one of two states that do not tax cigars. His refusal to support the tax on roll-your-own cigarettes has had the added expense of prohibiting the Attorney General from settling on a very big tobacco settlement case last fall that could cost us \$180 million this year and even more down the road.

Combined Operating Budget

Although much emphasis is placed on the General Fund budget, in which the governor's proposal spends \$29.4 billion, when you consider all state (general, special and other funds) and federal funds, the governor's proposal represents a **total commonwealth operating budget of \$71.8 billion**. Of that amount, state funds represent \$47.5 billion.

We watch the combined operating budget closely because in recent years spending has been shifted among funds to help balance the most-watched General Fund budget. The combined operating budget provides the most accurate representation of spending trends.

Net spending increases across all funds in Gov. Corbett's first three budgets were minimal and did not even cover inflationary costs, because of much deeper spending cuts; however, **his election-year proposal contains more than three times the spending increases of those first three years combined**. Gov. Corbett increased spending in the total commonwealth operating budget by \$1.3 billion over the span of his first three budgets. In contrast, the spending increase in the proposal for this year alone is \$4.1 billion, a 6.1 percent increase compared with the prior year. Of the \$4.1 billion increase, almost \$2.6 billion (a 5.8 percent increase) is total state funds. Again, due to unsustainable funding sources, we reiterate the implications for the first year of the next governor's administration are that we could not even sustain the budget Gov. Corbett has proposed.

General Fund

The proposed state General Fund budget of \$29.4 billion increases state expenditures by \$926.8 million, or 3.3 percent.

Fiscal year 2014/15 expenditures are partially supported by an ending balance of nearly \$216 million carried forward from the current year (2013/14). That balance comes primarily from spending cuts worth \$251.5 million. None of the balance is a result of a revenue surplus.

The governor expects revenues to meet the current forecast. We will watch this figure closely, as total General Fund revenues through the end of February were \$75.5 million, or 0.5 percent, below estimate.

The Independent Fiscal Office recently revised its revenue estimate, and now projects the commonwealth will finish the 2013/14 fiscal year roughly \$112 million below the official estimate.

Gov. Corbett's fiscal year 2014/15 General Fund budget projects that revenues will grow by 4.1 percent (\$1.2 billion), whereas growth in the current year (2013/14) compared to the prior year (2012/13) is estimated to be 1.6 percent (\$469 million). This budget year growth rate of 4.1 percent does not include Gov. Corbett's proposed revenue modifications, which add an estimated \$225 million in non-tax revenue; however, it does include \$102 million from a newly created tax on small games of chance played at taverns (Act 90 of 2013). Year-over-year revenue growth of current taxes and non-tax revenue is 3.8 percent (\$1.1 billion), which excludes small games of chance as a new category of taxes for which collections have not yet begun.

For more details on the governor's proposed revenue modifications, refer to the section on Tax and Revenue Changes.

Table of Contents

Overview	1
Education	6
K-12	6
Higher Education.....	7
Pensions	8
Health & Human Services	8
Public Welfare	8
Medical Assistance & Other Medicaid Programs.....	9
Health.....	11
Insurance.....	11
Tobacco Settlement Fund.....	12
Lottery Fund	12
Transportation.....	13
Law Enforcement, Public Safety & Justice	13
State Police.....	13
Corrections.....	13
Juvenile Court Judges' Commission	14
Board of Probation & Parole.....	14
Commission on Crime & Delinquency.....	14
Judiciary	14
Environment.....	14
Environmental Protection.....	14
Conservation and Natural Resources.....	15
Other Areas	15
Agriculture.....	15
Community & Economic Development.....	15
Labor & Industry	16
State	16
Row Offices	16
Complement.....	17
Tax & Revenue Changes	17
Tax Revenue	17
Non-Tax Revenue	17
Property Tax Relief.....	17

Education

K-12

Gov. Corbett proposes **NO increase in the basic education subsidy** for school districts. Instead, he proposes a new *Ready to Learn Block Grant*, a retooling of last year's failed *Passport for Learning Block Grant* proposal. His proposal also includes a new Hybrid Learning Grant program and Governor's Schools program. Again, a reminder that within the education appropriation, the governor proposes to pay for his election-year increases in education by massively increasing the pension debt.

- The new **Ready to Learn block grant** folds the current Accountability Block Grant (\$100 million) into the new program, for a total of \$341 million, which would be an overall increase of \$241 million. The Ready to Learn Block Grant appropriates \$220.8 million to school districts and \$19.2 million to charter schools for a total of \$240 million. An additional \$1 million will be awarded separately in a competitive grant.

This new program appears to closely mirror last year's failed *Passport for Learning* block grant proposal. School districts would be able to use their Accountability Block Grant allocations for the new Ready to Learn initiatives. Key components of the proposed program include:

- Ready by 3rd Grade – Ensures younger students are performing at grade level in math and reading.
- STEM (Science, Technology, Engineering and Math) – Supports academic programs related to STEM.
- Supplemental Instruction – Provides for customized learning and flexibility to schools.
- Governor's Expanding Excellence Program – Provides a \$1 million competitive grant program for the highest-achieving school districts. These high performing districts must agree to share best practices and strategies with other districts.
- The governor also proposes:
 - \$10 million for a new **Pennsylvania Hybrid Learning Grants** program designed to award 100 school districts and brick-and-mortar charter schools with funding to support the development and implementation of customized education that blends classroom and digital learning.
 - \$350,000 for three **Governor's Schools of Academic Excellence** for agricultural sciences, STEM and engineering.

Basic Education Funding

The governor proposes to flat-fund the **basic education funding (BEF) subsidy** at \$5.53 billion. BEF is the largest and most flexible appropriation in the education budget. This funding level remains substantially lower than 2010/11, the last fiscal year prior to the Corbett administration, when the basic education subsidy formula drove out nearly \$5.8 billion to school districts.

Other Programs

The governor proposes to:

- Increase the **Pre-K Counts** program, which provides early learning opportunities for children, by \$10 million, or 11.5 percent, for total funding of \$97.3 million.

- Flat-fund the **Head Start Supplemental Assistance** program, which provides early learning opportunities to economically disadvantaged children, at \$39.2 million.
- Increase the **Public Library Subsidy** by \$500,000, or 0.9 percent, for total funding of \$54 million. At the same time, his proposal reduces the **Library Access** (funding for Power Library, interlibrary delivery and electronic library catalog) by \$250,000, or 8.1 percent, for total funding of \$2.8 million.
- Increase the **Special Education** appropriation by \$20 million, or 1.9 percent, for total funding of \$1.05 billion. The governor proposes that the additional \$20 million will be appropriated using a new formula that has not yet been released. According to reports, the formula will be conceptually similar to the formula recommended by the recent Special Education Funding Commission.
- Eliminate **Career and Technical Education Equipment Grant** funding.
- Flat fund: teacher professional development; authority rentals and sinking funds (PLANCON); career and technical education; services to nonpublic schools; and textbooks, materials and equipment for non-public schools.
- Lock in the following funding eliminations of three years ago: Reimbursement of Charter Schools; Education Assistance Program; Intermediate Units; Dual Enrollment; School Improvement Grants; Science: It's Elementary; and High School Reform.

Higher Education

The governor proposes **no increases for institutions of higher education**. Because of cuts in state support in Gov. Corbett's first budget, state funding for public institutions of higher education is still between 4.5 percent and 19 percent lower than 2010/11, depending on the type of institution.

The governor's budget proposal includes reducing the transfer to the Community College Capital Fund by \$1 million, or 2 percent. Community colleges receive capital funding through this appropriation for debt service support. Other public institutions of higher education receive funding through the larger capital budget of the commonwealth. The budget indicates that capital funding for the PA State System of Higher Education and the state-related universities will be level-funded.

This proposal also funds regional community college services and community educational councils at the 2013/14 levels.

The governor's budget proposes **\$25 million for a new “Ready to Succeed” scholarship** to be administered by the Pennsylvania Higher Education Assistance Agency (PHEAA), which would fund merit-based scholarships for students from middle-income families pursuing two- and four-year post-secondary degrees at Pennsylvania schools.

The governor's budget includes level funding for appropriations supporting existing PHEAA programs, including PHEAA grants to students, with the exception of PA Internship Program Grants, which he proposes to eliminate.

The budget proposal requests that PHEAA increase its support for PA-TIP (Targeted Industry Program) by \$1 million. Currently funded from PHEAA business earnings, the PA-TIP program supports students enrolled in training and certificate programs less than two years in length. Other PHEAA business earning support is assumed to be held level (\$75 million for the regular PHEAA grant program and \$10 million for the distance education pilot program).

Pensions

The governor's budget proposal exacerbates the current pension debt problem and uses a large unsustainable funding source to offset some of the budget year costs. The proposed changes assume the passage of pension legislation separate from the annual appropriations bill. The assumed increase in long-term pension debt is cloaked in references to "reform". In reality, moving to a new pension system is unlikely to generate savings, and will potentially cost more. The proposal artificially reduces the state's required contribution from what would have been \$1.52 billion to \$1.11 billion, roughly a \$410 million shortfall to the teacher's pension system in the budget year.

If the pension collars are reduced, it will add roughly \$9.5 billion to the debt (unfunded liability) over 24 years for the teacher's pension system and about \$3.3 billion over 30 years to the State Employees' Retirement System. **The combined additional debt for the two systems will reach at least \$13 billion over the long term.**

Additionally, the governor's proposed budget reflects a one-time transfer of \$225 million in illiquid assets and cash from the Tobacco Settlement Fund and the Health Venture Investment Account to the Public School Employees' Retirement System (PERS), to supplement the state's employer contribution. The effect will be to leave Pennsylvania scrambling next year to find a way to replace those funds.

The governor's proposed budget also assumes the passage of pension legislation that would eliminate the commonwealth's duplicate retirement contribution to charter and cyber-charter schools, a savings of \$63 million to the state, not to school districts as some have proposed.

Credit agencies are raising red flags because they are concerned about Pennsylvania's inability to make wise fiscal choices and pay its bills. The state's pension liability is a cost-driver that must be addressed or Pennsylvania risks a credit downgrade which has negative fiscal ramifications.

In the governor's budget proposal, his discussion about his pension assumptions is ironic. He says that we "cannot kick the can down the road" and then proceeds to do just that when he proposes to artificially reduce the state's bill (collars). He says that "taxpayers bear the full financial risk of the pension plans" when Act 120 (2010) includes a shared risk provision that requires employees kick in more if investment returns are inadequate.

Finally, in addition to the harm outlined above, the budget assumes level funding for the **Public Employees Retirement Commission (PERC)**. PERC is charged with monitoring public retirements in the commonwealth and to assure their actuarial viability through a review of any proposed legislative changes to those plans. Given the proposed pension changes, this agency should be adequately funded to properly inform the General Assembly of the impact any legislative changes would have on the state's pension systems.

Health & Human Services

Public Welfare

Perhaps finally recognizing that **county offices** are severely understaffed to meet demands, including those under the Affordable Care Act (ACA), Gov. Corbett includes funding for more than 700 new positions.

Gov. Corbett's proposal includes additional state and federal funds relating to DPW's **child care programs** which have been subject to over \$50 million in cuts during his first three proposals. The

governor's budget includes an additional \$1.848 million for increased unannounced inspections of regulated child care facilities. The proposal also recommends using an additional \$14.992 million in federal Child Care Development Block Grant funds to provide services for an additional 2,895 children of low-income families.

Gov. Corbett's proposal makes sure to fund mandated services for **early intervention**, providing a net increase of \$4.192 million in state funds.

The budget proposal includes an additional \$28.437 million, or 2.7 percent, for **child welfare services**, as requested by counties through the needs-based budget process.

Gov. Corbett's proposal increases funding for **Domestic Violence** by \$1.393 million and **Rape Crisis** services by \$797,000, both by 10 percent. Stagnant state funding, federal funding reductions and other funding source cuts have crippled these safety net programs over several years. Hopefully, this is not too little, too late.

The budget proposal does not replace the \$84 million in cuts to county human services programs inflicted by Gov. Corbett in previous budgets. His proposed budget is silent on further expanding the Human Services Block Grant pilot program (now in 30 counties).

Medical Assistance & Other Medicaid Programs

Medicaid Expansion

The 2014/15 proposed budget is balanced, in part, with the assumption that the state will save \$125 million in Medical Assistance expenditures as the result of implementing the Medicaid provisions in Gov. Corbett's Healthy PA plan.

- Most of the budgeted savings (roughly \$115 million) are attributed to the governor's proposal to institute a Private Coverage Option for the new adult expansion group (up to 138 percent of the federal poverty level), beginning January 1, 2015.
- The other savings are associated with the various Medicaid "reforms" proposed by the governor – these include redesigning benefits, levying monthly premiums, and imposing job training/work requirements.

The proposed Private Coverage Option and Medicaid reforms require federal waiver approval by the Centers for Medicare and Medicaid Services (CMS). The Healthy PA waiver was submitted to CMS mid-February and posted on the CMS website for public comment on February 26. This committee believed the waiver, as submitted, would not be approved by CMS for several reasons, beginning with the mandatory work requirement. On March 5, just one week after the 30-day public comment period began, the Corbett Administration dropped its controversial mandatory work requirement and is now proposing a voluntary pilot instead. Even with this alternative work/job search proposal, the waiver still may not meet federal approval because certain components (including the monthly premiums and emergency room copayments) are inconsistent with existing federal regulations and/or the conditions CMS placed on Arkansas and Iowa when approving their waivers for private coverage. Negotiations with CMS over these and other issues could take months, leaving more than 500,000 uninsured Pennsylvanians without any health care coverage in 2014.

Medicaid expansion remains the most expedient, efficient and straight forward approach to extending health care in Pennsylvania. Expansion should be done now so that people are not unnecessarily denied coverage while the Corbett Administration negotiates its plan with CMS.

Other Medical Assistance Budget Highlights

The number of Pennsylvanians receiving Medical Assistance is projected to average 2,258,540 individuals per month in 2014/15, before taking into account the impact of the Affordable Care Act and Healthy PA on enrollments - this represents annual caseload growth of 3.9 percent.

The governor's budget proposal apparently does not provide for rate increases for Medical Assistance providers. That is, no funds are budgeted to increase rates paid to managed care organizations (MCOs), nursing homes, or hospitals.

In order to reduce state General Fund spending in 2014/15, Gov. Corbett proposes to delay payments to certain MCOs by one month. The proposed payment delay is projected to save the state \$394 million in 2014/15: \$282 million from delaying payments to physical health MCOs, and \$111 million from delaying payments to behavioral health MCOs. Please note that these are one-time cash flow savings that will disappear in 2015/16 when the state resumes paying 12 full monthly payments; consequently, \$394 million will be required to fill the hole created for the 2015/16 budget.

The governor's budget does not reduce the various supplemental payments, including disproportionate share (DSH) payments, for qualifying hospitals.

Long-Term Care

To further reduce state General Fund spending for Medical Assistance, the governor proposes to utilize an additional \$192.8 million from special funds to help pay for long term care provided to seniors.

- \$130 million from the Lottery Fund is requested for waiver services provided to seniors through the Home and Community- Based Services appropriation. These funds are being siphoned from the Lottery Fund balance, projected to be \$188.5 million at the close of the current 2013/14 fiscal year.
- \$62.8 million from the Tobacco Settlement Fund is redirected to nursing homes which are funded through the Long-Term Care appropriation. The governor is requesting to redirect funds by changing the allocation percentages enacted last year in Act 71 of 2013 for distributing annual tobacco payments received by the commonwealth – for 2014/15, the 8 percent allocation to PACENET would be eliminated and the 30 percent allocation to Medical Assistance for Workers with Disabilities (MAWD) would be reduced to 15.12 percent. Under the existing statutory allocations, nursing homes would actually receive \$7.5 million less in Tobacco Settlement Funds compared to 2013/14.

The Corbett Administration is finally taking advantage of the federal Medicaid funds available under the Affordable Care Act (ACA) for home and community-based services. Specifically, the proposed 2014/15 budget includes \$75 million of enhanced federal match available under the Balancing Incentive Program – the ACA included \$3 billion for this program, which began October 2011 and will expire after September 2015. The additional federal funds will save the state \$75 million in 2014/15 by reducing the need to spend state General Fund revenue for various programs that serve seniors and individuals with disabilities. It is important to note that only one quarter of enhanced federal match will be available in 2015/16; therefore, state funds will be needed to replace the federal funds that disappear beginning Oct. 1, 2015.

Expanded Community Services

The 2014/15 proposed budget includes additional General Funds to provide community services for the elderly and for individuals with disabilities, both physical and developmental. Nearly \$51 million is requested for the following appropriations to expand community services for an additional 2,510 people:

- \$9.4 million for Long-Term Care Managed Care to serve an additional 800 seniors.

- \$15.3 million for Services to Persons with Disabilities to serve an additional 1,203 adults with severe physical disabilities.
- \$2.7 million for Attendant Care to serve an additional 396 disabled adults.
- \$22.5 million for Intellectual Disabilities (ID) – Community Waiver Program to serve an additional 1,100 individuals, including 400 individuals on the emergency waiting list and 700 students graduating from Special Education.
- \$1.106 million for Autism Intervention and Services to serve an additional 100 adults with autism.

Additional Lottery Funds totaling \$14.1 million are also requested to expand community-based services for another 2,468 seniors. (See Lottery Fund section for detail.)

The governor's budget proposal also includes General Funds to provide community placements for 140 current residents in the state mental health hospitals and the state ID centers. \$5.5 million is requested for the following appropriations:

- \$4.725 million for Mental Health Services to provide home and community-based services for 90 individuals currently residing in state hospitals.
- \$722,000 for Intellectual Disabilities – Community Waiver Program to provide home and community-based services for 50 individuals with intellectual disabilities currently residing in state centers.

Please note that the proposed budget does not request the closure of any state hospital or state center.

Health

Gov. Corbett proposes an additional \$4 million for the **Primary Health Care Practitioner** program to increase hospital residency grants and loan repayment awards. He proposed an additional \$1 million in his 2013/14 proposal without success.

In addition, the governor proposes to double funding (by \$4 million) under his **Community-Based Health Care Subsidy** program to provide grants for four new health care centers and other existing health care entities. He touts this program as "increasing access to primary care services." Meanwhile 500,000 uninsured people in Pennsylvania wait for health care coverage.

Insurance

The governor's proposed budget reflects an agreement with the federal government to allow children from families with incomes between 100-133 percent of the federal poverty level to stay within the **Children's Health Insurance (CHIP)** program through the end of 2014, prior to moving to the Medical Assistance program as required by the Affordable Care Act. The budget proposal estimates this move at the beginning of 2015 will save \$3.456 million in state funds in the CHIP program and increase state funds by an equal amount in the Medical Assistance program.

Within the CHIP program, Gov. Corbett's proposed budget also includes an additional \$9 million to provide coverage to an additional 10,419 children. Please note a portion of this projected increased enrollment is the result of screenings on the health exchanges.

Tobacco Settlement Fund

The 2014/15 Executive Budget proposal allocates \$328.1 million of Tobacco Settlement Fund revenue to health-related activities. This includes \$307 million of payments anticipated from tobacco manufacturers in April 2015 and \$20.8 million from the strategic contribution payment.

Gov. Corbett proposes the following changes to the new allocation formula enacted last year (Act 71 of 2013) in order to redirect a total of \$70 million for health-related purposes in 2014/15:

- Reduces the funding allocation for Medical Assistance for Workers with Disabilities (MAWD) from the 30 percent in current statute to 15.12 percent.
- Eliminates the 8 percent funding allocation for the PACENET Transfer.
- Increases the funding allocation for health-related purposes from the 22.72 percent in current statute, to 45.6 percent.

In addition to the redirected funds, the governor recommends the strategic contribution payment continue to be appropriated for health-related purposes – namely, the Long-Term Care appropriation in DPW which funds nursing home care for Medical Assistance recipients and Life Science Greenhouses in DCED.

The governor's budget proposes to transfer to PSERS \$225 million of assets and cash reserves in the Tobacco Settlement Fund and the Health Venture Investment Account. The governor recommends 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.

Lottery Fund

The 2014/15 Executive Budget assumes the Pennsylvania Lottery will be expanded to include Keno. It also assumes legislation will be enacted to extend relief from the 30 percent profit mandate in the Pennsylvania Lottery Law (the 27 percent profit mandate that has existed under special legislative authority since 2008 is set to expire after June 30, 2015). Ticket sales are projected at \$3.965 billion in 2014/15, representing 6.1 percent annual growth, while net lottery collections, after taking into account commissions and field prizes, are projected to grow 7.1 percent to \$1.769 billion in 2014/15.

The proposed 2014/15 budget spends \$1.418 billion of Lottery Fund revenues on senior programs, representing a net increase of \$131 million from the current year. Very little of this increase is for new or expanded programs. Rather, it primarily reflects Gov. Corbett's decision to use \$130 million of Lottery Fund balances to reduce General Fund spending for the Aging Waiver program (funded through the Home and Community-Based Services appropriation in DPW). The Lottery Fund is projected to end the current year with a \$188.5 million balance, which is available to spend in the upcoming year; the governor's proposed budget will leave the balance at \$44 million at the close of 2014/15.

The Executive Budget proposes to spend \$14 million of Lottery Funds to expand community-based services for 2,468 seniors in 2014/15.

- \$2.5 million is requested in the PENNCARE appropriation, 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.

- \$11.6 million is requested for the Aging Waiver so that an additional 1,764 seniors will receive services.

For the second consecutive year, Gov. Corbett requests \$2 million to fund grants to senior centers – this is \$150,000 less than the amount actually appropriated by the General Assembly in 2013/14.

Transportation

The governor's proposed budget reflects the first full year of a five-year phase-in of enhanced revenues generated from the passage of Act 89 of 2013. The proposed budget eliminates funding for the Rail Freight Assistance Program in the General Fund as this program will receive funding from the Multimodal Fund under Act 89. Further, the governor's proposed budget includes the issuance of \$195 million in bonds to finance bridge safety improvement projects likely from enhanced Motor License Fund revenues, pursuant to Act 89.

Law Enforcement, Public Safety & Justice

State Police

The governor proposes to increase State Police general government operations by a total of \$45.8 million (\$9.9 million from the General Fund and \$35.9 million from the Motor License Fund).

The governor proposes spending \$13.7 million to fund four cadet classes, for a potential total of 350 cadets. While this appears to be a significant increase, the department is down 489 troopers from authorized levels and as of November 2013, 1,155 troopers were eligible for retirement.

Corrections

Gov. Corbett proposes to increase the Department of Corrections budget by \$77.8 million, or 4 percent. He increases the State Correctional Institution appropriation by nearly \$78.3 million more than last year, and under the Inmate Medical Care appropriation includes a savings of \$10 million through rebates for AIDS medication and \$2.5 million under his Healthy PA proposal.

The Justice Reinvestment Initiative (JRI), Act 122 of 2012, was expected to reduce the prison population by 1,200 inmates and save \$139 million over a five-year period beginning in 2012/13. In its first year, JRI was anticipated to save \$1 million, with more substantial savings expected to begin in 2014/15. In reality, there were no significant savings in 2012/13. In the current year (2013/14), \$43,000 in savings was deposited into the Justice Reinvestment Fund. Of this amount, \$31,000 was appropriated to the PA Commission on Crime and Delinquency (PCCD) and \$12,000 was appropriated to the PA Commission on Sentencing. The governor's 2014/15 budget proposal includes an anticipated savings of \$418,000, which will be deposited into the Justice Reinvestment Fund. Of this amount, \$299,000 is targeted to PCCD for victim services and \$119,000 is targeted to the PA Commission on Sentencing.

Not only were significant savings not realized from the implementation of JRI, the department has also proposed supplemental appropriations for 2013/14:

- Medical Care - \$5 million
- State Correctional Institutions - \$15 million

Juvenile Court Judges' Commission

Gov. Corbett's budget proposes to increase funding to the Juvenile Court Judges' Commission by \$111,000, including funding for the governor's Juvenile Justice Reinvestment Initiative. The governor's budget also proposes to increase funding for Juvenile Probation Services by \$2.5 million, or 13.2 percent.

Board of Probation & Parole

Gov. Corbett proposes to increase general government operations for the board by nearly \$13 million. This increase continues the current program, provides resources established under the Justice Reinvestment Initiative (JRI), and provides for workforce development and GPS monitoring equipment. As inmates leave prison more quickly under the JRI, Probation and Parole will see increases in its caseload. The governor also proposes funding for 36 additional employees to help address the increased caseload.

Commission on Crime & Delinquency

Gov. Corbett's budget includes nearly \$4.2 million for the commission in 2014/15, a \$234,000 increase over last year. However, PCCD will lose \$11.8 million in federal funding in 2014/15 for a variety of programs.

The governor proposes a net increase of \$1.3 million for the Violence Prevention Programs appropriation, including a Juvenile Justice Reinvestment Initiative. The governor's budget proposal also includes a new appropriation to support Child Advocacy Center operational support and expansion.

Judiciary

In his 2014/15 budget, Gov. Corbett proposes level funding for all levels of the Judiciary. When contractually obligated increases in salary and benefits are taken into consideration, level funding amounts to a budget cut.

Additionally, the governor proposes to eliminate funding for Philadelphia Traffic Courts and increase funding for Philadelphia Municipal Courts by the same amount. As required under Act 17 of 2003, the Philadelphia Municipal Court is to assume the responsibility of the abolished Philadelphia Traffic Court.

Environment

Environmental Protection

Gov. Corbett's proposed budget increases state funding for several environmental protection appropriations. However, Gov. Corbett notes that these increases merely offset reductions in federal indirect revenues. Specifically, the governor would increase:

- General Government Operations by \$1.67 million, or 15.7 percent,
- Environmental Program Management by \$1.75 million, or 6.7 percent, and
- Environmental Protection Operations by \$7.31 million, or 9.6 percent.

The governor's 2014/15 proposal eliminates 66 full-time-equivalent positions from the agency and important programs such as flood control projects and sewage facilities planning/enforcement grants remain unfunded. Pennsylvania's conservation districts receive flat-funding from the General Fund, on top of their share of the unconventional gas well impact fee.

Gov. Corbett's proposed budget provides \$434,000 to the Delaware River Basin Commission, which is less than half of Pennsylvania's fair-share contribution. However, the governor proposes to fully fund

the commonwealth's contributions for the other four interstate waterway commissions. Gov. Corbett has expressed displeasure with the Delaware River Basin Commission's delay in adopting new rules to allow for hydraulic fracturing operations to commence in the basin.

Conservation and Natural Resources

Gov. Corbett proposes to **lift the moratorium on additional leasing of state forest and park land for oil and gas development.**

In Oct. 2010, Gov. Rendell signed an executive order mandating that "no lands owned and managed by DCNR shall be leased for oil and gas development." Gov. Corbett's budget proposal assumes \$75 million in "non-surface impact leasing revenue" from Pennsylvania's state parks and forests. Based on past leases, this translates to roughly 20,000 additional acres leased. These funds are transferred to the General Fund to help balance the state budget.

Additionally, Gov. Corbett's proposed budget continues to backfill his state General Fund cuts to parks and forests with increased transfers from the Oil and Gas Lease Fund. The General Fund appropriation for State Forest Operations and State Parks Operations are 81 percent and 87 percent lower, respectively, compared to when Gov. Corbett took office. Under the governor's proposal, DCNR would receive \$117.5 million, or 31 percent, of its revenue from the Oil and Gas Lease Fund in 2014/15.

In 2005, voters approved Growing Greener, a \$625 million bond issue to finance environmental projects. The last \$25 million in bonds will be issued in 2014/15. Gov. Corbett proposes to use these funds and the remaining balance in the Growing Greener Bond Fund (monies from accrued interest and the premiums from bond issuances) to make a \$45 million one-time investment in state park and forest projects.

Other Areas

Agriculture

Gov. Corbett proposes to increase the Department of Agriculture's general government operations by \$3.5 million or 9 percent, for a total of \$35.7 million.

Once again, Gov. Corbett raids the Pennsylvania Race Horse Development Fund by redirecting \$17.7 million to the Veterinary Lab (\$5.3 million), the Animal Health Commission (\$5.4 million), the Transfer to State Farm Products Show Fund (\$4 million), and Payments to Pennsylvania Fairs (\$3 million).

The governor proposes to increase the Transfer to the Agricultural College Land Scrip Fund (Penn State University) appropriation by \$1.5 million, for a total of \$47.7 million.

The Racing Fund lacks adequate funding to carry out its duties of regulating the state's horse racing industry, and is dealing with increased costs from drug testing more race horses. The governor is proposing \$6.5 million in new fees to boost revenues for the fund. These new fees would include:

- A \$215 fee per horse, per drug test sample. The governor estimates this new fee will generate \$4 million.
- A \$25 entry fee, per horse for racing purposes. The governor estimates this new fee will generate \$2.5 million.

Community & Economic Development

Gov. Corbett's proposal provides a \$1.2 million, or 16 percent, increase for the Center for Local Government Services. The proposal cuts the transfer to the Municipalities Financial Recovery Revolving

Fund (Act 47) by \$1.8 million, or 26 percent. The governor's proposal also recommends flat-funding Early Intervention for Distressed Municipalities. The Governor proposes to eliminate funding for the Office of the Receiver for the City of Harrisburg.

In his budget proposal, the governor cuts the Marketing to Attract Tourists appropriation in half, while increasing the Marketing to Attract Business, Pennsylvania First and World Trade PA programs.

Labor & Industry

Gov. Corbett proposes a \$1 million increase for the Office of Vocational Rehabilitation (OVR). Combined with matching federal funds, OVR plans to start an on-the-job training reimbursement program to provide financial incentives to hire young people with disabilities, ages 18 to 25.

The budget proposes to flat-fund Centers for Independent Living, as well as appropriations for supported employment, Keystone Works and assistive technology (assistive technology demonstration and training, and assistive technology devices).

The governor's budget eliminates funding for the New Choices/ New Options program and reduces funding for Industry Partnerships by \$200,000, or 11 percent.

State

The governor's budget proposal reduces state funding for Voter Registration and Education by \$2.051 million, or nearly 82 percent, due to a "nonrecurring project", which could be related to the now defunct Voter ID law. However, the governor's budget proposal supplements this appropriation and the Statewide Uniform Registry of Electors appropriation with \$2.043 million in federal funds.

This budget proposal also reduces state funding for Lobbying Disclosure by \$197,000, or 40 percent. The governor proposes to account for this decrease with an increase in the lobbyist disclosure fee from \$200 to \$400 effective Jan. 1, 2015.

Finally, this budget proposal includes \$5.341 million for the publishing and advertising of three proposed Constitutional Amendments.

Row Offices

In his 2014/15 budget, Gov. Corbett proposes level funding for the offices of the Attorney General and Auditor General. When contractually obligated increases in salary and benefits are taken into consideration, the level funding amounts to a budget cut for the offices.

Treasury Department

The Treasury Department is the only row office to receive any increase in its general government operations budget. The governor's budget proposal increases funding to the department by \$3.5 million, or nearly 11 percent, to support increased processing and advertising costs for the unclaimed property program.

The governor's budget also proposes to reduce, from five years to three years, the amount of time unclaimed property is held by outside institutions before it would escheat to the commonwealth. According to the governor's budget office, this would provide an estimated \$150 million in one-time revenue. During his budget hearing, the Treasurer indicated that they estimate the revenues would be realized over two years, not one.

Complement

Although Gov. Corbett plans to increase the total number of state employees by 140 full-time equivalent authorized positions in 2014/15, 14 agencies will need to cut positions.

Gov. Corbett proposes to create 703 new positions in the Department of Public Welfare associated with implementing the Affordable Care Act and his Healthy PA proposal; however, he also eliminates 388 positions from the same department, mostly dedicated to mental health services.

Under the governor's proposal, the Department of Corrections, Board of Probation and Parole and State Police would receive modest increases in their total number of authorized positions.

Since Gov. Corbett took office, the number of authorized positions has decreased by 1,880 positions (or 2.3 percent) from 81,473 in 2010/11 to 79,593 in the proposed budget. It is not known what portion of the decline is attributable to attrition versus layoffs or terminations.

Tax & Revenue Changes

Gov. Corbett cut business taxes by \$1.2 billion during his first three budgets. Those same tax breaks will cost the commonwealth nearly \$881 million in 2014/15. For more information on the business tax cuts, see [Gov. Corbett's Corporate Favors: Fast Facts](#).

Tax Revenue

While the governor's budget does not include any changes to current tax laws, his budget assumes \$102 million in new tax revenue from the recently enacted expansion of small games of chance. However, to date, few tavern owners have submitted applications for a small games of chance license; therefore, this revenue may not materialize and be available for the 2014/15 budget.

Gov. Corbett's budget proposal also assumes the continuation of the capital stock and franchise tax phase out according to the schedule currently in law (0.67 mills for tax years beginning in 2014; 0.45 mills for tax years beginning in 2015; and completely eliminated in 2016).

Non-Tax Revenue

The governor's budget proposal assumes:

- \$150 million from shortening the holding period for unclaimed property from five to three years.
- \$75 million transfer from the Oil and Gas Lease Fund to the General Fund from reversing the moratorium on the leasing of additional state park and forest lands for drilling.

Property Tax Relief

The governor's budget does not include any changes with respect to property tax relief disbursements to homeowners and senior citizens. The Property Tax Relief Fund shows no increase for general property tax relief. It does show a decrease of \$17.2 million for property tax relief and property tax/rent rebate for seniors.

The level of property tax relief is proposed to be maintained at a constant level, while transfers from the State Gaming Fund are expected to grow by only \$5.4 million, or 0.7 percent, in 2014/15. In April, the Budget Secretary will certify the official amount of money in the fund for property tax relief.