

Summary of House Bill 1192, PN1959 (As Amended by #A02697)

On June 26, 2015, the House Republicans amended the General Fund Appropriations bill, House Bill 1192, in the Appropriations Committee. The Democratic committee had less than 24 hours to review the House Republicans' budget proposal (#A02697) before consideration in committee. This summary document provides a preliminary overview of House Bill 1192, PN1959, as passed by the House on June 27, 2015. Please note: We will continue to revise this document as new information becomes available.

Overview

- **The Republican budget does not solve the structural budget deficit. It continues to rely on gimmicks and one-time funding sources in an attempt to balance the budget. In addition, it fails to restore cuts to education, health and human services and other critical programs, and it fails to provide property tax relief.**
- Republicans and Democrats largely agree that there is a structural deficit in excess of \$2 billion, absent corrective action – a \$1.3 billion gap at the close of the budget year, growing to a \$2.1 billion gap in the following fiscal year, 2016/17. The Republican proposal will exacerbate the structural budget deficit.
 - Please note: A “structural deficit” is the amount needed to simply maintain programs, allowing for increases only where required under current law (known as a “cost-to-carry” budget), such as increases largely related to Medicaid and mandatory contributions to the retirement systems. A structural deficit does not take into account increases for critical programs like education, costs that further exacerbate the gap. Corrective action to eliminate the structural deficit must include reliable recurring revenue.
- **The Republican plan spends \$30.2 billion** (including funding for non-preferred appropriations in other bills), **which is an increase of \$1 billion, or 3.6 percent, compared to the current year’s budget** (2014/15), after accounting for supplementals.
 - However, even with increases in some areas, the proposal is \$853.5 million, or 2.8 percent, less than the agreed-upon amount (\$31.0 billion) needed to fund programs at current levels and pay for mandatory increases.
 - **Compared with the governor’s proposal, the Republican plan is \$1.7 billion less.** The governor’s proposed spending plan of \$31.85 billion includes recent revisions worth \$220 million mostly because of collective bargaining impacts, cost and utilization trends in human service programs and the availability of other funds to pay for expenditures.
- **According to information provided by Republicans, it appears their budget plan relies on over \$1.5 billion from unsustainable sources and gimmicks.** (See list on Page 2.) Their plan relies on:
 - Liquor privatization worth \$220 million, according to Republican estimates. At least a portion of the \$220 million, or possibly all of it, is one-time revenue.
 - One time transfers from special funds worth more than \$53.8 million.
 - The current-year ending balance, estimated at \$375 million, according to the Republican financial statement.
 - Additional adjustments to the revenue estimate worth \$97.2 million, according to Republican estimates.
 - One-time expenditure savings of about \$810.6 million by shifting payments to future years and questionable reductions in appropriations for managed care programs and nursing facilities.

Gimmicks, One-Time Sources & Fund Transfers

Unsustainable Sources & Gimmicks Used to Balance Republican Plan	
(\$ Amounts in Thousands)	
Liquor Privatization	\$ 220,000.0
Transfers to the General Fund from Special Funds & Other Unsustainable Sources	\$ 53,808.9
Small Business First Fund	\$ 15,000.0
Insurance Regulation and Oversight Fund	\$ 13,000.0
Higher Education Assistance Fund, SciTech and GI Bill Restricted Revenue Account	\$ 10,500.0
One-time transfer from DEP program for CFA debt service	\$ 6,800.0
Machinery and Equipment Loan Fund	\$ 5,000.0
Pennsylvania Economic Revitalization Fund	\$ 3,380.0
Higher Education Assistance Fund, BioMedicine and Life Sciences Student Loans Forgiveness Restricted Revenue Account	\$ 121.6
Higher Education Assistance Fund, Early Childhood Loan Forgiveness Restricted Revenue Account	\$ 6.4
Higher Education Assistance Fund, Agricultural Loan Forgiveness Restricted Revenue Account	\$ 0.8
Ending Balance from 2014/15	\$ 375,000.0
Adjustment to Revenue Estimate for 2015/16	\$ 105,000.0
Other Unsustainable Sources & Gimmicks	\$ 816,852.0
Authority Rentals & Sinking Fund Requirements (PlanCon) shifted to future year	\$ 306,198.0
County child welfare payments booked in future year	\$ 171,273.0
Long-Term Care (nursing facilities) - Unsustainable use of prior year revenue, including Tobacco Settlement Fund balances	\$ 110,000.0
Questionable reduction in state cost for Medicaid managed care program	\$ 106,976.0
School Employees' Social Security payments shifted to future year	\$ 87,405.0
Cash Grants - Unsustainable use of federal TANF block grant reserves	\$ 20,000.0
Home & Community-Based Services - Unsustainable use of Lottery Fund revenues	\$ 15,000.0
TOTAL	\$ 1,570,660.9

Note: The plan consists of \$29.6 billion in General Fund spending in 2015/16, which excludes non-preferred appropriations and executive authorizations.

- In addition, the plan includes supplemental spending in 2014/15 of \$115 million, as well as \$47 million in transfers from special funds.

Education

K-12

- The Republican budget proposal only provides a \$100 million, or 1.8 percent, increase for basic education funding. Gov. Wolf called for a \$400 million, or 7 percent, increase to substantially restore the previous administration's cuts to basic education.

- The Republican proposal only provides one-quarter of the funding Gov. Wolf proposed for early childhood education. The proposal:
 - Increases Pre-K Counts by \$25 million, or 26 percent. (The governor’s budget recommended a \$100 million, or 103 percent, increase.)
 - Increases Head Start Supplemental Assistance by \$5 million, or 13 percent. (The governor’s budget recommended a \$20 million, or 51 percent, increase.)
- The Republican proposal calls for an increase of \$20 million, or 2 percent, for Special Education, which falls \$80 million short of the \$100 million, or 10 percent, increase proposed by Gov. Wolf.
- The Republican proposal completely eliminates state funding, \$306 million, for the PlanCon appropriation (called Authority Rentals and Sinking Fund Requirements). This move indicates interest by the Republicans in an idea being considered by the administration that would utilize the existing PA State Public School Building Authority for school construction financing instead of the state appropriation. However, it remains unclear where the republicans would transfer the program or how they would pay for the existing obligation.
- The Republican proposal underfunds the required School Employees’ Social Security appropriation by \$87.4 million, or 17 percent. This is an irresponsible cut because social security payments are payroll-based; therefore, they are required.
- In total, not including the required pension payments, the Republican budget proposal reduces education funding by \$220 million compared to the 2014/15 budget and by \$882 million compared with the governor’s proposal for 2015/16.

Higher Education

- The Republican budget proposal falls far short of Gov. Wolf’s plan to restore over two years funding for institutions of higher education.
 - In general, the proposal offers only 3 percent increases for institutions of higher education, including community colleges, state-related universities, the State System of Higher Education, Thaddeus Stevens College of Technology and institutional assistance grants. By contrast, the governor proposed increases between 7 percent and 11 percent for these institutions.
- The proposal increases PHEAA grants by \$10.3 million, or 3 percent. The governor’s budget did not provide additional funds for PHEAA grants; however, the proposal does not increase the Ready to Succeed scholarships, which the governor had proposed increasing by \$10 million.

Pensions

- The Republican proposal includes an appropriation of \$1.73 billion for the state share of the employer contribution to PSERS, which is \$573 million, or nearly 50 percent, more than the current-year (2014/15) appropriation of \$1.16 billion.
 - The Republican proposal backfills the gap created in the current fiscal year by the one-time, \$225 million, transfer of private equity investments and cash reserves from the Tobacco Settlement Fund and Health Venture Investment Account to PSERS.
 - However, the proposal is about \$19 million, or 1.1 percent, short of the required employer contribution payment to the pension funds, as estimated in the governor’s budget to fulfill the Act 120 of 2010 funding levels.

- The Republican proposal assumes \$94 million in savings from the elimination of the state’s duplicative retirement contribution to charter and cyber-charter schools. Note that the pension “double-dip” was only temporarily eliminated for the current fiscal year. The provision must again be made for the 2015/16 budget or made permanent in order for the savings to be realized.

Public Employee Retirement Commission (PERC)

- The proposal increases the appropriation for PERC by \$48,000, or 5 percent, to \$962,000 for the purpose of providing actuarial analyses to pension legislation brought before the General Assembly. PERC is charged with monitoring public retirements in the state and to assure their actuarial viability through review of any proposed legislative changes to those plans.
- Due to increased interest in pension reform, the commission has had to accommodate the General Assembly’s desire to analyze several proposals that require robust actuarial analyses, such as Senate Bill 1 (Corman) and House Bill 727 (Kampf).

Health & Human Services

Human Services

- The Republican proposal includes no new funding for county-run human service programs, retaining Gov. Corbett’s 10 percent funding cut (worth \$84 million) implemented in 2012/13.
 - Gov. Wolf proposed to begin a three-year restoration of the cut with \$28 million (or one-third) in 2015/16.
- The proposal reduces roughly \$170 million budgeted for county child welfare in 2015/16, creating one-time budgetary savings that must be replaced in 2016/17.
 - NOTE: This reduction does not affect the timing of payments to counties, it simply changes the fiscal year in which the expenditures are booked to align the cost with the year in which the payment is actually made.
- The proposal includes no new funding to combat the heroin epidemic in the commonwealth.
 - Gov. Wolf proposed \$2.5 million for counties to provide additional services to address heroin and opioid addiction.
- The proposal includes no new funding to reduce homelessness for veterans.
 - Gov. Wolf proposed \$1 million for this purpose.
- The proposal includes no new funding to provide additional supports to promote employment opportunities for individuals with intellectual disabilities.
 - Gov. Wolf proposed \$500,000 for this purpose.
- The proposal includes additional funding to reduce the county emergency waiting list by providing home and community-based services to an additional 400 individuals with intellectual disabilities; however, it funds fewer months of services than requested by Gov. Wolf in his waiting list initiative, which means individuals will have to wait until the last quarter of 2015/16 to receive services.
- The proposal includes additional funding, as requested by Gov. Wolf, to:
 - Expand home and community-based services to 600 special education graduates.
 - Expand home and community-based services to 50 adults with autism spectrum disorders.
 - Expand home and community-based services to 1,764 seniors.

- Expand home and community-based services to 1,140 individuals with severe physical disabilities.
- Expand attendant care to 324 adults with physical disabilities.

Medical Assistance

- The Republican proposal assumes \$65 million additional state savings from Fee-For-Service “revenue maximization” (i.e., the hospital assessment).
 - This is half of the \$130 million state savings proposed by Gov. Wolf.
- The proposal increases funding for Critical Access Hospitals, reflecting the addition of two new hospitals.
- The proposal funds Obstetric and Neonatal Services and Hospital-Based Burn Centers at the 2014/15 funding levels.
- The proposal underfunds the managed care program by \$107 million, making questionable reductions to the state funds budgeted in the Capitation appropriation.

Health

- Proposed funding for Chronic Care Management does not include the \$3 million increase requested by the department – and supported by the governor – to bring together stakeholders to reimagine care delivery and management in primary care settings.
- The Republican proposal eliminates funding for a statewide health registry to monitor the health of individuals who reside near natural gas fracking operations.
- The proposal flat-funds the Primary Health Care Practitioner; notably, this includes retaining the loan repayment program that the governor proposes shifting to PHEAA, with a significant funding increase from proceeds of that agency.
- The budget offered by Republicans provides funding in line with the governor’s proposal to Achieving Better Care by Monitoring All Prescriptions (ABC-MAP) – a new prescription drug registry established under Act 191 of 2014.
- The Republican proposal restores the following appropriations eliminated under the governor’s proposal, with a 2 percent increase compared to 2014/15: Diabetes Programs; Lupus; Regional Poison Control Centers; Trauma Prevention; Epilepsy Support Services; Bio-Technology Research; Tourette Syndrome; Amyotrophic Lateral Sclerosis (ALS) Support Services.
- The Republican proposal restores the following programs reduced under governor’s budget proposal to current-year levels or provides slight increases: Regional Cancer Institutes; Adult Cystic Fibrosis and Other Chronic Respiratory Illnesses; Hemophilia; Sickle Cell.

Insurance

- The Republican proposal includes a \$203,000 reduction in funding for the administration of the Children’s Health Insurance Program (CHIP) compared to the governor’s proposal; however, program funding matches the levels proposed by the governor.
- The proposal from Republicans fails to provide the \$7 million loan repayment due to the Underground Storage Tank Indemnification Fund (USTIF).
 - This repayment is mandated by an agreement between the Insurance Department and Office of Budget following a failure to make adequate, timely payments on the original loan.

Tobacco Settlement Fund

- Republicans use \$116.6 million from the Tobacco Settlement Fund to help pay for General Fund nursing facility expenditures in the Department of Human Services.
 - This is \$122 million less than 2014/15, but \$10 million more than the amount Gov. Wolf recommended for 2015/16.

Lottery Fund

- The Republican proposal uses \$309.7 million from the Lottery Fund to reduce General Fund spending on Medicaid expenditures in the Department of Human Services.
 - This is \$191.9 million less than 2014/15, but \$15 million more than Gov. Wolf's revised request for 2015/16.

Transportation

- The Republican proposal supplants the \$4.6 million General Fund appropriation for PennPORTS – Philadelphia Regional Port Authority Debt Service, with a commensurate amount from the Multimodal Transportation Fund. This appropriation provides the yearly cost of the bond payments for the Philadelphia Port.
- The proposal reflects anticipated decreases in federal funding, due largely from the recurring insolvency of the Highway Trust Fund. In most instances where there are increases, they are attributable to unspent funds being carried over into the subsequent year.
- The proposal reflects anticipated increases for highway and bridge funding under Act 89 of 2013.

Law Enforcement, Public Safety & Justice

State Police

- The Republican proposal funds the State Police at a total of \$1 billion, including \$246 million from the General Fund and \$757.6 million from the Motor License Fund. This is similar to the governor's proposal of slightly over \$1 billion more as revised to reflect the collective bargaining agreement included in the recently released spring update from the Budget Office.

Corrections

- The Republican budget proposal funds the Department of Corrections at an amount \$37 million lower than the governor's revised proposal.
 - A recent arbitration agreement awarded corrections officers a 2.5 percent increase in salaries. While the Republican proposal increases funding for corrections, it may not be enough to annualize the salary increases. This could result in furloughs of corrections officers, which would lead to increased overtime costs.

Board of Probation and Parole

- The Republican proposal provides \$168.3 million for the Board of Probation and Parole, which is \$5.4 million less than the amount included in the governor's revised budget proposal.

- The reduced funding will likely mean fewer agents hired to supervise offenders eligible for parole. The state saves significant money by transitioning eligible offenders from a state correctional institution to parole.

Military & Veterans Affairs

- The Republican budget proposal increases the Military and Veterans Affairs' general government operations by \$526,000; which is \$1.7 million less than the governor's revised proposal.
- The Republican budget proposal funds Veterans' Homes at almost \$91 million, which is \$2.2 million less than the governor's proposal. Recently, Veterans Homes have been inspected and received poor evaluations regarding safety of veterans. Funds for appropriate care and personnel are necessary.
- The governor proposed a \$500,000 increase for Education of Veterans' Children; however, the Republican budget proposal flat funds this appropriation at \$101,000.

Judiciary

- The Republican proposal increases funding for the Judiciary by \$10 million. This increase consists of a \$7 million increase for the Courts of Common Pleas judges and a \$3 million increase for Magisterial District judges. The governor's budget proposal included flat funding for all of the judiciary appropriations.

Attorney General

- The Republican budget proposal for the Office of Attorney General is \$1 million less than the governor's revised proposed budget of \$96.4 million, and does not reflect an additional \$220,000 for Tobacco Law Enforcement recommended in the governor's revised budget.

Environment

Environmental Protection

- The Republican budget cuts the Environmental Program Management appropriation by \$240,000. The governor proposed a \$1.45 million, or 5 percent, increase in this appropriation.
- The proposal increases Environmental Protection Operations by \$2.73 million, or 3 percent, as compared to the current year. Gov. Wolf proposed a 6.1 percent increase and an additional \$5 million augmentation from a severance tax on natural gas.
- The Republican budget provides an additional \$100,000 for West Nile Virus Control, but cuts \$100,000 from the Susquehanna River Basin Commission.
- The Republican budget contains funding for the Sewage Facilities Grants, \$900,000, and maintains funding for conservation districts.
- The proposal fails to restore prior cuts to the Delaware River Basin Commission. The governor had proposed to restore \$316,000 of the prior administration's \$500,000, or 54 percent, cut.

Conservation and Natural Resources

- The proposal increases State Parks Operations by \$13.7 million to \$16 million. The majority of this increase is from shifting operating costs for the department from the Oil and Gas Lease Fund to the General Fund, as Gov. Wolf proposed.
- The Republican budget proposes \$6.7 million for State Forests Operations and Pest Management, which is a \$5.65 million increase as compared to the current year.

Other Areas

Agriculture

- The proposal increases funding for the State Food Purchase Program by \$1 million, for a total of \$18.4 million. This appropriation helps to fund food banks in every county. The proposal is roughly \$2 million less than Gov. Wolf's proposal of \$20.3 million.
- The Republican budget restores to 2014/15 levels several programs of importance to the legislature, including: Agricultural Excellence; Agricultural Promotion, Education and Exports; and Hardwoods Research and Promotion.
- The budget proposal moves the following appropriations from the Race Horse Development Fund to the General Fund: Animal Health and Diagnostic Commission, Pennsylvania Veterinary Lab and Payments to Pennsylvania Fairs.
 - The budget proposal funds the Animal Health and Diagnostic Commission and Pennsylvania Veterinary Lab at current-year spending levels.
 - The proposal increases funding for the Pennsylvania Fairs by \$1 million, from \$3 million to \$4 million.

Community & Economic Development

- In comparison to the overall funding contained in the governor's proposal, the budget proposed by Republicans provides \$69 million less to the agency.
- The Republican budget proposal flat funds many programs slated for increases under the governor's proposal, such as:
 - Pennsylvania First (The governor proposed a \$25 million increase.)
 - Infrastructure and Facilities Improvement Grants (The governor proposed a \$11 million increase.)
 - Partnerships for Regional Economic Performance (The governor proposed a \$12 million increase by splitting Industrial Resource Centers into a separate appropriation.)
 - Keystone Communities (The governor proposed a \$15 million increase.)
- The Republican proposal does not fund the following new programs proposed by the governor:
 - Base Realignment and Closure (The governor proposed \$775,000.)
 - Public Television Technology (The governor proposed \$4 million.)
- The Republicans propose \$90.2 million for the Transfer to the Commonwealth Financing Authority (CFA) for debt service payment, compared to the governor's proposal to fully fund this payment at \$97 million.

- The additional \$6.8 million in debt service is provided in the Republican budget by transferring the remaining balance of a defunct DEP grant program.
- This follows a blueprint of one-time fixes and gimmicks used in recent years.

Labor & Industry

- The proposal does not contain the governor's initiative to increase vocational rehabilitation funding by \$5 million. Therefore, the commonwealth will continue to leave approximately \$18 million in federal matching dollars on the table that could be used to help provide support to Pennsylvanians with disabilities who are seeking employment.
- The proposal provides an additional \$70,000 to support assistive technology devices and \$71,000 for the assistive technology lending library.
- The proposal flat-funds the Industry Partnerships program at \$1.8 million. The governor's budget recommended increasing the program to \$11.6 million to allow groups of employers in the same industry to develop training programs to meet their workforce needs.