

Summary of Senate Republicans' 2015/16 Budget Proposal (HB 1801, PN2968)

On March 15, 2016, the Senate Republicans amended House Bill 1801 in the Senate Appropriations Committee with a General Fund spending plan for 2015/16. The Senate is expected to pass House Bill 1801, as amended, on March 16 and send the bill to the House for concurrence.

House Bill 1801, as amended by the Senate, is based on House Bill 1460 - the Republican budget sent to the governor in late December prior to line-item vetoes and assuming the non-preferred appropriations - with several changes outlined in this document.

- **The budget plan spends a net \$232 million LESS than House Bill 1460, which failed to provide funding for adequate levels of service.**
- **The budget plan also relies on a total of \$310 million in unrealistic cuts and lapses:**
 - \$200 million in prior-year funds, which will not be possible at this inadequate funding level according to the Governor's Budget Office; \$93 million in unrealistic cuts to mandated Medical Assistance payments; and underfunding of the Department of Corrections by \$17 million.
- **Therefore, the Republican budget plan is out of balance by at least \$290 million in 2015/16.** The Republicans, by their own admission, reflect a \$1.2 billion deficit on the financial statement in 2016/17. After considering the unrealistic cuts and lapses, the deficit is projected to reach at least \$1.6 billion under this proposal.
- The budget plan also fails to provide adequate funding to support current service levels and fails to reimburse school districts and human service providers for borrowing costs incurred during the impasse.

This summary document provides a preliminary overview of House Bill 1801, PN2968, as amended by the Senate on March 15, 2016. Please note: We will revise this document as new information becomes available.

Overview

The General Fund portion of the Republicans' plan (House Bill 1801, PN2968) spends \$30.03 billion (assuming funding for non-preferred appropriations contained in separate bills), **which is an increase of \$879 million, or 3.0 percent, compared to the 2014/15 budget**, after accounting for supplemental appropriations.

- As compared to the \$30.3 billion budget sent to the governor in late December (House Bill 1460, PN2626, including funding for non-preferred appropriations and prior to the governor's line-item vetoes), the Republican budget plan is \$232 million, or 0.8 percent, less.
- Note: House Bill 1460 was out of balance by at least \$300 million (according to the Independent Fiscal Office) and as much as \$511 million (according to the administration).
- The governor's line-item vetoes totaled \$6.3 billion (excluding the non-preferred appropriations); therefore, Act 10A (House Bill 1460 post veto) General Fund expenditures totaled \$23.4 billion.
- **As compared with the \$30.8 billion bipartisan budget agreement, the Republican budget plan is \$757 million, or 2.5 percent, less.**

The Republicans' budget plan jeopardizes the state's credit rating because it fails to address the commonwealth's \$2 billion structural budget deficit.

- On March 3, Standard and Poor's Ratings Services warned it could downgrade Pennsylvania's credit rating by the end of March if the structural budget imbalance is not addressed.
- Democrats and Republicans largely agree that there is a structural deficit of about \$2 billion, absent corrective action. According to the Independent Fiscal Office (IFO), the commonwealth is facing a \$1.9 billion gap for 2016/17, growing to more than \$2.6 billion in the following years.

Gimmicks, One-Time Sources & Fund Transfers

The Republicans' budget plan continues to rely on more than \$1.3 billion in gimmicks and one-time funding sources in an attempt to balance the budget.

Unsustainable Sources & Gimmicks Used to Balance Republican 2015/16 Plan (HB1801)	
(\$ Amounts in Thousands)	
Transfers to the General Fund from Special Funds & Other Unsustainable Sources	\$ 37,928.9
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
Dormitory Sprinkler Account	\$ 4,500.0
Pennsylvania Economic Revitalization Fund	\$ 3,000.0
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	\$ 274,500.0
Prior Year Lapses	\$ 200,000.0
Other Unsustainable Sources & Gimmicks	\$ 826,179.0
Payments shifted to future year:	
Authority Rentals & Sinking Fund Requirements (PlanCon)	\$ 306,198.0
County Child Welfare (changed budgeting from accrual basis to cash basis)	\$ 171,273.0
School Employees' Social Security	\$ 87,405.0
Questionable reductions in state costs for programs/agencies:	
Medicaid managed care program	\$ 78,268.0
Community-based services for seniors and adults with physical disabilities	\$ 61,035.0
Medical Assistance for Workers with Disabilities (MAWD)	\$ 15,000.0
Corrections	\$ 15,000.0
Other non-sustainable budget solutions:	
Long-Term Care (nursing facilities) - Unsustainable use of prior year revenue	\$ 50,000.0
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
Underground Storage Tank Indemnification Fund (STIF) - Do not make loan repayment	\$ 7,000.0
TOTAL	\$ 1,338,607.9

Note: In addition, the proposal would reduce the PHEAA State Grant Program appropriation by \$39 million, and backfill the reduction with PHEAA business earnings. (In addition to the \$11 million the board has already approved for 2015/16.) The PHEAA board has yet to decide how it will treat a request to backfill the reduction with additional business earnings.

Education

K-12

- The Republican budget proposal provides \$50 million in additional funding for basic education as compared to House Bill 1460. However, the increases for basic, special and early childhood education in the budget plan remain \$227 million BELOW the amounts contained in the bipartisan budget agreement.

Comparing Key Education Increases (over 2014/15 levels) in Various 2015/16 Budget Proposals	Basic Education (including Ready to Learn)	Special Education	Early Childhood (Pre-K Counts & Head Start)	Basic, Special, Early Ed Total
Gov.'s Original 2015/16 Proposal (March 2015)	\$400 M	\$100 M	\$120 M	\$620 M
Republican HB1192 (June 2015)	\$100 M	\$20 M	\$30 M	\$150 M
Bipartisan Agreement (Dec. 2015)	\$377 M	\$50 M	\$60 M	\$487 M
Republican HB1460 (Dec. 2015)	\$150 M	\$30 M	\$30 M	\$210 M
Republican HB1801 (March 2016)	\$200 M	\$30 M	\$30 M	\$260 M
HB1801 Less Bipartisan Agreement	-\$177 M	-\$20 M	-\$30 M	-\$227 M
HB1801 Less HB1460	\$50 M	\$0 M	\$0 M	\$50 M

- Total program funding for school districts in the Republican plan (House Bill 1801) remains below the 2008/09 funding level – the year before federal stimulus.
- The Republican plan (House Bill 1801) contains substantive language surrounding the basic education funding appropriation. It states that if the basic education funding for 2015/16 is less than or equal to 2014/15 OR if no legislation to distribute the funding is enacted, THEN basic education payments to school districts (including the amount in Act 10A) shall be reconciled so that each school district will receive in 2015/16 a prorated share of their 2014/15 funding amount.
 - The accompanying Fiscal Code bill (House Bill 1327) contains formulas that distribute the basic education and Ready to Learn Block Grant funding.
 - The basic education funding distribution holds school districts harmless to 2014/15 and distributes any increase based on the formula recommended by the Basic Education Funding Commission. If funding for basic education is less than or equal to the amount in 2014/15, then funding will be distributed pro rata based on the 2014/15 distribution.
 - Both the Republican plan (House Bill 1801) and Act 10A contain a \$250 million appropriation for the Ready to Learn Block Grant, a \$50 million increase compared to 2014/15. All of the 2015/16 Ready to Learn Block Grant funds have already been distributed using a formula that holds all school districts harmless to 2014/15 and distributes the remaining funds based on a prorated share of charter school expenditures. The Fiscal Code (House Bill 1327) uses a different formula that holds all school entities harmless to 2014/15 and distributes the remaining funds based on a prorated share of the 2014/15 Ready to Learn distribution. Any Ready to Learn Block Grant overpayments to school districts that have occurred will be deducted from the balance of the state's share of the school district's basic education funding.
- The budget plan falls short in other education investments such as Adult and Family Literacy and Career and Technical Education. However, the plan would restore the legislative addbacks that were vetoed by the governor in Act 10A.

- Additionally, the budget plan creates a two-month lag in the state reimbursements to school districts for the required School Employees' Social Security payments. This gimmick leaves school districts on the hook for \$87.4 million in 2015/16.
- The budget plan also creates uncertainty in the PlanCon program by not appropriating any funding (\$0) and instead relying on bond proceeds. PlanCon received a \$306 million appropriation in 2014/15. The administration has determined it would be fiscally irresponsible to go to market with a new bond issue before addressing the commonwealth's structural budget challenges.

Higher Education

- The Republican budget assumes passage of non-preferred appropriations, which would generally provide 5 percent increases for institutions of higher education, with a few exceptions.
- For PHEAA, the proposal would reduce the State Grant Program appropriation by \$39 million, and backfill the reduction with PHEAA business earnings. The PHEAA board has yet to decide how it will treat a request to backfill the reduction with business earnings.

Health & Human Services

Human Services

- The budget plan includes \$13 million to restore three hospital appropriations that were line-item vetoed by the governor (Act 10A): critical access hospitals, burn centers and obstetric/neonatal payments.
- However, the budget plan underfunds Medicaid programs by \$145 million, failing to pay the following mandated expenditures:
 - Medical Assistance managed care (- \$78 million);
 - Medical Assistance for workers with disabilities (- \$15 million);
 - Home and Community Based Waiver programs for seniors (- \$14 million); and
 - Community-based services for adults with physical disabilities (- \$32 million).
- The budget plan does NOT:
 - Restore county human service funding – such as mental health, intellectual disabilities, drug and alcohol treatment, homeless assistance and county child welfare (- \$27.9 million).
 - Fully fund the waiting list initiative for 400 adults with intellectual disabilities (- \$9.3 million).
 - Fund other initiatives that address the heroin epidemic, veterans homelessness and job opportunities for individuals with intellectual disabilities (- \$5 million).
- The budget plan also does not increase funding for medical schools.

Health

- The budget plan provides an additional \$100,000 for the Newborn Screening appropriation, which restores funding to the level provided in House Bill 1460 prior to the governor's line-item veto.
- The budget also provides funding for numerous research and condition-specific appropriations within the Department of Health that are traditionally added back by the legislature. These appropriations were either fully or partially vetoed by the governor in Act 10A.

- Notably, funding for these appropriations is equal to 2014/15 levels – removing the two percent increase that was included in House Bill 1460, as well as the bipartisan budget agreement.

Drug & Alcohol Programs

- The budget plan reduces the increase for Assistance to Drug and Alcohol Programs by \$1.5 million as compared to House Bill 1460, resulting in a net increase of \$3.5 million. It moves the \$1.5 million to an earmark within the Department of Corrections, per the Fiscal Code (House Bill 1327). Act 10A – along with Gov. Wolf’s initial budget proposal and the bipartisan budget agreement – included a full \$5 million increase to provide essential support in combatting the heroin and opioid epidemic across the commonwealth.

Tobacco Settlement Fund

- The budget plan appropriates \$111.4 million of Tobacco Settlement Fund revenue for Medical Assistance (MA) Long-Term Care in 2015/16, the same as the governor’s revised request in his February Executive Budget.
- The budget plan includes the following amendment to the Tobacco Settlement Fund provisions in the Fiscal Code (House Bill 1327):
 - As proposed by Gov. Wolf, the statutory formula for allocating tobacco payments to programs is modified – eliminating the 8 percent allocation for PACENET and increasing the allocation for health-related purposes from the 22.72 percent to 30.72 percent – so that an additional \$24.4 million is redirected to MA Long-Term Care.
- Additionally, as proposed by Gov. Wolf, the budget plan uses the strategic contribution payment (\$20.7 million) for MA Long-Term Care.

Lottery Fund

- The budget plan appropriates a total of \$825 million from the Lottery Fund:
 - \$515.4 million to support senior programs in the Department of Aging.
 - \$309.6 million is used to help pay for Medicaid expenditures in the Department of Human Services (DHS).
- The Republican plan spends \$15 million less than recommended by the governor for Pharmaceutical Assistance for seniors.
- The Republican plan spends \$15 million more than recommended by the governor to fund DHS programs, shifting an additional \$15 million of Home and Community Based Services expenditures from the General Fund to the Lottery Fund.

2015/16 Lottery Fund Appropriations for Senior Programs <i>(\$ in Millions)</i>	GOP Budget Plan (HB1801)	Executive Budget Proposal	\$ Difference
Department of Aging:	\$515.4	\$530.4	-\$15.0
PennCARE	309.9	309.9	-
Pre-Admission Assessment	16.1	16.1	-
Caregiver Support	12.1	12.1	-
Pharmaceutical Assistance Fund	175.0	190.0	-15.0
Grants to Senior Centers	2.0	2.0	-
Alzheimer's Outreach	0.3	0.3	-
Department of Human Services:	\$309.6	\$294.6	\$15.0
Medical Assistance Long-Term Care	184.1	184.1	-
Home and Community Based Services	120.7	105.7	15.0
Medical Assistance Transportation	4.9	4.9	-

Law Enforcement, Public Safety & Justice

Corrections

- The budget proposal provides an additional \$1.5 million for the Department of Corrections' General Government Operations (GGO) appropriation as compared to House Bill 1460, which mirrors the amount included in the bipartisan budget agreement. However, these funds are earmarked for a medication-assisted treatment pilot program in the accompanying Fiscal Code bill (House Bill 1327).
- It also restores funding to the State Correctional Institutions (SCIs) to the levels included in House Bill 1460. However, the funding is almost \$17 million less than the amount included in the bipartisan budget agreement – an amount necessary to maintain adequate personnel and mandated services.

Child Advocacy Centers

- The Republican proposal restores the \$1 million for Child Advocacy Centers (CACs), which was line-item vetoed by the governor.
- However, the governor's proposals for 2015/16 and 2016/17 assume that a direct appropriation for child advocacy centers will no longer be necessary due to the newly created restricted receipt account established under Act 28 of 2014 (from increased birth certificate fees) and from the endowment account established under Act 1 of 2013. Per the settlement, sufficient funds are available in the endowment account for child advocacy centers and other services to assist child sexual abuse victims. The CACs are one of the main recipients of the endowment funds. The endowment funds will provide significantly more money for the CACs compared to previous state appropriations.

Commission on Crime and Delinquency

- The Republican budget proposal restores the \$416,000 to the Pennsylvania Commission on Crime and Delinquency (PCCD) that was line-item vetoed by the governor.

Military & Veterans Affairs

- The Republican proposal restores the \$100,000 for Civil Air Patrol that was line-item vetoed by the governor in Act 10A.

Violence Prevention Programs

- The Republican budget plan restores \$697,000 to Violence Prevention Programs, which corresponds to the amount that was line-item vetoed by the governor.

Environment

Conservation and Natural Resources

- The Republican budget proposes to restore funding for the Heritage and Other Parks appropriation. The appropriation for Heritage and Other Parks would total \$2.25 million, which is consistent with what was included in House Bill 1460 prior to the governor's line-item veto. This is \$500,000 less than the funding level agreed to in December as part of the bipartisan agreement.

Other Areas

Agriculture

The Republican budget plan restores funding for several appropriations within the Department of Agriculture that were line-item vetoed by the governor in Act 10A.

- This budget proposal restores funding for those appropriations traditionally added back by the General Assembly, which were line-item vetoed by the governor in Act 10A. Funding for these appropriations would be at 2014/15 levels, with one exception. The Agricultural Research appropriation would receive \$1.58 million for 2015/16, an \$800,000 increase over 2014/15. The increase in funding can be attributed to avian flu response efforts.
- The budget plan fully funds the Agricultural College Land Scrip Fund at \$50.5 million. This appropriation supports agricultural extension operations at Penn State. This funding is consistent with both House Bill 1460 and the bipartisan agreement from December. Furthermore, it represents a \$4.3 million, or 9 percent, increase over 2014/15.
- The budget plan assumes passage of the non-preferred appropriations, including funding for veterinary activities at the University of Pennsylvania. The budget proposal would provide \$29.4 million for veterinary activities and \$274,000 for the Center for Infectious Disease at the University of Pennsylvania. This represents a \$1.4 million, or 5 percent, increase over 2014/15. This funding level was agreed to in both House Bill 1460 and the budget agreement reached in December.
- The budget proposal restores the appropriations traditionally funded by the Race Horse Development Fund (RHDF). House Bill 1460 proposed to fund the Animal Health and Diagnostic Commission, the Pennsylvania Veterinary Lab, and payments to Pennsylvania fairs from the state General Fund under the Department of Agriculture.
 - Under this latest proposal, House Bill 1801, all transfers from the RHDF are restored. In addition to the above-mentioned appropriations, the budget would provide for the \$6.1 million transfer

from the RHDF to the state Racing Fund, which was part of the multi-party race horse industry reforms reached last fall, as well as funding for the state Farm Show. The Fiscal Code (House Bill 1327) would authorize the above-mentioned RHDF transfers.

Community & Economic Development

- The budget plan includes partial or full restorations to appropriations that are traditionally added back by the legislature. The additional funds provided for legislative initiatives contained within Marketing to Attract Tourists are \$250,000 less than 2014/15 levels, which is aligned with spending levels in House Bill 1460.
- The Republican proposal contains none of the funding restorations proposed by the governor or included in the bipartisan agreement for economic and community development programs that were severely cut under the previous administration.