

## Summary of House Bill 2328, PN 3836 (As Amended by #A08004)

On June 24, 2014, the House Republicans amended the budget bill vehicle, House Bill 2328, in the Appropriations Committee. The Democratic committee had less than 24 hours to review the House Republicans' budget proposal (#A08004) before consideration in committee. This summary document provides a quick overview of the House Republicans' budget proposal.

The spending priorities reflected in the budget bill do not reflect the priorities of the House Democratic caucus; priorities that have, for the most part, remained unchanged for the past four years. A copy of the House Democratic 2014/15 Budget Priorities is available on our website at [www.hacd.net](http://www.hacd.net).

### Overview

- The House Republicans' budget proposal, House Bill 2328 PN 3836, would spend \$29.1 billion (assuming level funding for non-preferred appropriations in other bills).
  - This is \$315.9 million, or 1.1 percent, less than the governor's proposed budget of \$29.4 billion.
  - It is an increase of only \$536.1 million, or 1.9 percent, over the current year's budget (2013/14), after considering the additional \$143.7 million in net supplemental appropriations (\$73.8 million more than the governor's budget) for the 2013/14 fiscal year that are contained in the proposal.
  - The proposal increases spending in other special funds by \$67.5 million, or 1.7 percent, more as compared to the governor's proposed budget. This begs the question whether the House Republicans are moving expenditures offline, and out of the General Fund, to lower the overall General Fund spending increase?
  - The proposal assumes year-over-year revenue growth of 3.2 percent, the same as the Independent Fiscal Office.
- According to their financial statement, House Republicans would close their \$1.4 billion budget gap by:
  - Proposing additional unsustainable revenue sources and gimmicks totaling roughly \$700 million;
  - Reducing spending by \$242 million as compared to the governor's February budget proposal;
  - Lapsing unspent funds from current and prior year appropriations totaling \$274 million; and
  - Reducing refund reserves from current and upcoming budget years totaling \$205 million.
- Please note: The House Republicans' spending plan is out of balance without passing appropriate legislation to put the funding mechanisms in place.

### Gimmicks, One-Time Sources & Fund Transfers

Unsustainable Sources & Gimmicks Used to Balance 2014/15 Budget	Governor's Proposal	House R Proposal
One Month Payment Delay to Managed Care Organizations	\$394 Million	\$394 Million
Tobacco Settlement Board Transfer to Teachers' Pension System	\$225 Million	\$225 Million
Escheats – Shortens Holding Period for Unclaimed Property	\$150 Million	\$150 Million
Expenditures for Home and Community-Based Services (Aging Waiver) Shifted from the General Fund to the Lottery Fund	\$130 Million	\$130 Million
Questionable Medicaid Savings from Healthy PA Proposal	\$125 Million	\$125 Million
Leasing State Forest Land for Additional Drilling, Shifted from Oil & Gas Lease Fund to General Fund	\$75 Million	\$75 Million
Tobacco Settlement Funds Redirected to Help Fund Nursing Homes	\$70 Million	\$113 Million
Enhanced FMAP in 2014/15 (will not be available in 2015/16)	\$45 Million	\$45 Million
Liquor Privatization	----	\$380 Million
Special Fund Transfers	----	\$226 Million
Temporary Suspension of Tax Credits	----	\$48 Million
Department of Revenue Notice on Bank Shares Tax	----	\$40 Million
<b>TOTAL</b>	<b>\$1.2 Billion</b>	<b>\$1.95 Billion</b>

- The Republican proposal relies heavily on unsustainable, one-time revenue sources such as fund transfers and temporary suspension of tax credits – even more gimmicks than the governor had included in his proposal.
- One of the largest revenue sources proposed is \$380 million from liquor privatization; however, legislation has not passed to authorize privatization, and no details have been provided. The PFM study of the governor’s liquor privatization proposal indicated that the transition period would be challenging and would take three years to complete. It is unrealistic for the House Republicans to assume that the Liquor Control Board will be able to sell off enough of the system in the first year to generate the revenue their spending proposal depends on.

## Education

Education funding totaled \$9.28 billion (excluding pension payments) in the governor’s 2014/15 budget proposal; the Republican proposal reduces this total to \$9.14 billion, a difference of \$145.6 million. This is less than 2008/09 - the fiscal year prior to federal stimulus funding. We exclude pension payments because more than half of the state’s obligation, which is mandated by law, goes towards paying a past debt incurred by the state – not for education funding in today’s classrooms.

The Republican proposal continues the elimination of classroom funding for programs such as: Dual Enrollment, Reimbursement of Charter Schools, Education Assistance Program, Science: It’s Elementary, and School Improvement Grants.

### K-12

- The Republican proposal eliminates the three new initiatives proposed by Gov. Corbett:
  - Ready to Learn Block Grant: - \$241 million
  - Hybrid Learning Grants: - \$10 million
  - Governor’s Schools of Academic Excellence: - \$350,000
- The Republican proposal includes the following increases over the governor’s proposed budget:
  - Basic education subsidy: + \$70 million, or 1.3 percent
    - How the funding increase will be distributed to school districts is unknown at this time, as the Republicans have not provided a formula or spreadsheet.
  - PlanCon: + \$10 million
    - This \$10 million increase will do little, if anything, to resolve the current backlog in school construction projects. The Department of Education recently indicated that \$105 million was needed to move “G” level projects into the reimbursement (“H”) level.
- The Republican proposal flat-funds the Accountability Block Grant at \$100 million.
- The Republican proposal reduces proposed increases in the governor’s budget:
  - Pre-K Counts: - \$1.3 million (funding remains \$8.7 million above the 2013/14 level)
- The Republican proposal includes legislative adds (all flat-funded to 2013/14 level):
  - Mobile Science and Math Education: \$864,000
  - Career and Technical Education Equipment Grants: \$3 million
  - Job Training Programs: \$8 million

### Higher Education

- Funding to colleges and universities, including community colleges, state-related universities, PASSHE, Thaddeus Stevens College, private schools that receive state funding and Institutional Assistance Grant from PHEAA, is flat funded compared with the current 2013/14 fiscal year.
  - Please note: The non-preferred appropriation bills for the state-related universities are separate from House Bill 2328.
- PHEAA grants are level-funded.

- The proposal includes \$5 million for Gov. Corbett's proposed "Ready to Succeed" scholarships. The governor had proposed \$25 million for this new program.
- Capital funding for community colleges is level-funded at \$48.8 million, compared with the current 2013/14 fiscal year. The governor had proposed a \$1 million reduction.
- Community education councils are level-funded at \$2.3 million, compared with the 2013/14 fiscal year.

## Pensions

- The Republican proposal appears to be making a stronger effort at making the required employer payment to the pension funds; however, the spending plan falls short in two significant ways:
  - One, it underfunds the teacher's retirement fund by at least \$225 million; and
  - Two, it fails to provide appropriate funding to the agencies to make their required contribution to the state employees' retirement fund.
- Altogether, the Republican plan provides less than half (45 percent) of the state's required contribution increase to the state's two pension funds from the General Fund; roughly \$277 million of the \$608 million required payment increase. This figure excludes any one-time budget funding gimmicks.
  - PSERS: The Republican proposal includes \$1.22 billion of its \$1.48 billion payment (\$260 million short), which is \$100 million more than the governor's proposal.
  - SERS: The Republican proposal includes \$484 million of its \$544 million payment (\$60 million short), which is the same as the governor's proposal.
- A major one-time funding gimmick assumed in the governor's budget plan to partially offset the required employer contribution payment to PSERS appears to be included in the Republican proposal: the transfer of \$225 million of private equity investments and cash reserves from the Tobacco Settlement Fund and Health Venture Investment Account to PSERS. It should be noted that these funds are not entirely cash. Of the \$225 million, roughly \$180 million is in illiquid, long-term, high-risk investments and \$45 million in cash. For PSERS, the reduced cash payment from the state provides liquidity issues.
- It appears at this juncture, that the Republican plan may not include tapering of the pension rate collars further, which could indicate an understanding that such a move only exacerbates the pension debt problem. However, it is concerning that the Republican plan does not fully fund the state employees' retirement fund and uses one-time budget funding gimmicks to make the state's required payment to the teacher's retirement fund.
- The Republican proposal does not assume any savings from the elimination of the state's duplicative retirement contribution to charter and cyber-charter schools, which would generate roughly \$76 million in savings if it was included.

## Public Employee Retirement Commission (PERC)

- The proposal increases the appropriation for PERC by \$81,000 to provide 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.
- The proposal provides current-year supplemental funding of \$20,000 to provide partial support for the substantial actuarial analyses performed on legislation brought before the General Assembly. It is not sufficient to cover all costs incurred. PERC's budget was exhausted prior to considering the Corbett-Tobash pension plan, which cost PERC nearly \$40,000 to provide the actuarial analysis.

## Health & Human Services

### Public Welfare

- The Republican proposal includes no new funding for county-run human service programs, retaining Gov. Corbett's 10 percent funding cut (worth \$84 million) for a third year.

- The proposal delays expanding community-based services for disabled individuals, as proposed by the governor, funding fewer months of services in 2014/15 in order to lower state costs.
- On a positive note, the community-based waiver programs include new funding to support rate increases for personal assistance services and for service coordination, which helps the Area Agencies on Aging. It also includes funding to remove the waiting list for the Act 150 attendant care program.

## Medical Assistance

- The proposal includes Gov. Corbett's Healthy PA proposal and its questionable \$125 million state savings, even though the waiver still does not have the federal approval required for the proposed Jan. 1, 2015, implementation date.
- The Republican proposal discontinues the Medical Assistance for Workers with Disabilities (MAWD) program, as recommended in Gov. Corbett's budget proposal.
- The proposal does not expand Medicaid immediately, squandering six additional months of state savings and needlessly delaying health care coverage for 500,000 Pennsylvanians until January 2015.
- It continues to rely on one-time budget gimmicks such as fund transfers and payment delay:
  - Takes another \$43 million from the Tobacco Settlement Fund to help pay for nursing home costs – this is on top of the \$70 million taken by Gov. Corbett in his proposed budget.
  - Retains Gov. Corbett's recommendation to delay managed care payments by one month.
- The proposal does not include funding to increase managed care rates, as proposed in the governor's budget.

## Health

- Funding for the Primary Health Care Practitioner was reduced by \$3 million to \$4.7 million. The governor proposed to increase funding for this program to \$7.7 million as part of his Healthy PA proposal to provide an additional 12 hospital residency grants and 70 loan repayment awards to recruit and retain health care professionals in underserved areas of the state.
- The Republican proposal also reduces another aspect of the governor's Healthy PA proposal by reducing funding for the Community Based Health Care Subsidy from \$8 million to \$5 million. As funded at the governor's levels, this program would have provided grants for four new health care centers and to 36 existing health care entities to increase access to preventive primary care services for uninsured individuals in underserved areas of the state.
- The Republican proposal restores the following programs eliminated under the governor's budget proposal to current year funding levels:
  - Diabetes Programs
  - Lupus
  - Regional Poison Control Centers
  - Trauma Program Coordination
  - Epilepsy Support Services
  - Bio-Technology Research
  - Tourette Syndrome
- The Republican proposal restores the following programs cut under the governor's budget proposal to current year funding levels:
  - Regional Cancer Institutes
  - Adult Cystic Fibrosis and Other Chronic Respiratory Illnesses
  - Hemophilia
  - Sickle Cell

## Insurance

- The Republican proposal maintains expansion for the Children's Health Insurance Program (CHIP), but funds were cut to reflect lower-than-anticipated enrollments in 2013/14.

## Tobacco Settlement Fund

- Republicans take another \$43 million from the Tobacco Settlement Fund to help pay for General Fund nursing home costs – this is on top of the \$70 million taken by Gov. Corbett in his proposed budget.
- At this time, we do not know what changes the Republicans propose in the annual allocation of Tobacco Settlement Fund payments or if they will support the governor's proposed changes to the allocation formula.

## Lottery Fund

- The Republican proposal reflects Gov. Corbett's proposal to use \$130 million in Lottery Fund balances to reduce General Fund spending for DPW's Aging Waiver program.

## Transportation

- The Republican proposal eliminates \$896,000 for photo ID cards. In January 2014, the requirement that mandated that voters show photo identification at the polls was struck down by the courts. The funding associated with this requirement is no longer necessary.
- The proposal reflects anticipated increases for highway and bridge funding related to enhanced revenues generated pursuant to Act 89 of 2013.

## Law Enforcement, Public Safety & Justice

### State Police

- The Republican proposal increases the GGO for the State Police by \$1.5 million in its General Fund appropriation, and increases the GGO for the State Police by \$10.113 million in its Motor License Fund appropriation – above the governor's proposal. The governor's budget proposal already assumed additional funding for four additional cadet classes, for a potential total of 350 cadets. It is unclear why the House Republicans are proposing these additional funds for the State Police.
- The Gun Checks appropriation, funded by the General Fund, is cut by \$1 million as compared to the governor's proposal; however, the Firearms Records Check Fund, a restricted account, is increased by \$1 million.
- The balance of the State Police's funding under the Republican proposal mirrors the governor's proposal.

### Corrections

- The Republican budget proposal funds the Department of Corrections' appropriations at the same level as the governor's proposed budget, except for the Medical Care appropriation.
  - The combined Department of Corrections' appropriations increase by \$94.3 million, or 4.9 percent, over 2013/14 (before an additional assumption for supplemental appropriations).
  - The Medical Care appropriation increases by \$340,000 compared to 2013/14; however, it is a reduction of \$3.5 million, compared to the governor's proposal.

### Board of Probation and Parole

- The Board of Probation and Parole is funded by the Republican proposal at the same level as the governor's proposal.

### PA Commission on Crime and Delinquency (PCCD)

- The Republican proposal cuts PCCD by 5.2 percent, or \$216,000, as compared to the governor's proposal, and funds it at \$3.973 million.
- The Republican proposal includes \$4.564 million for the Violence Prevention Programs, which is \$1.3 million less than the governor's proposal, or a 22.2 percent cut.

- Intermediate Punishment Treatment Programs are cut by \$2 million by the Republican proposal when compared to the governor's proposal, for a total of \$18.945 million.
- The Republican proposal cuts Juvenile Probation Services by \$2.5 million, or 11.7 percent, when compared to the governor's proposal. This appropriation is funded by the House Republicans at \$18.945 million.

### **Military & Veterans Affairs**

- The Republican budget proposal cuts the Military and Veterans Affairs' general government operations by \$50,000 and cuts the Transfer to Educational Assistance Program Fund by \$2 million, as compared to the governor's proposal.
- The remainder of the appropriations for Military and Veterans Affairs are the same under both the Republican proposal and the governor's proposal.

### **Judiciary**

- Under the Republican proposal, the Judiciary is funded at \$317.4 million - the same as the governor's proposal. This still leaves the Judiciary about \$25 million short of its budget request.

### **Environment**

- The Republican proposal relies on the guesstimated \$75 million in revenue from expanded "non-impact" drilling on state park and forest land, as included in the governor's proposal.
- The Republican proposal adds \$2.25 million back to the Heritage Areas program. Gov. Corbett eliminated funding for the program in his proposal.
- The Republican proposal goes beyond Gov. Corbett's extreme state General Fund cuts to DCNR by cutting \$15 million more from the agency's General Operations, State Parks Operations, and State Forest Operations appropriations.
  - The Republican proposal makes up this cut by increasing the Oil and Gas Lease Fund transfer to DCNR by \$5 million and an assumed increase in the timber sales revenue estimate by \$10 million.
  - In total, the Oil and Gas Lease Fund will transfer \$122.5 million to DCNR in 2014/15. The Republican proposal has the state General Fund contributing just 3.8 percent of DCNR's total budget while the Oil and Gas Lease Fund accounts for 32.7 percent. In 2010/11, Gov. Rendell's final budget, the state General Fund contributed 29.1 percent of DCNR's total budget while the Oil and Gas Lease Fund accounted for 8.6 percent.
- The Republican proposal singles out the Delaware River Basin Commission for a 54 percent cut, while leaving PA's fair share contributions intact for the other five interstate waterway commissions.
- The Republican proposal reinstates funding for the Sewage Facilities Planning Grants (\$200,000) and maintains funding for the Conservation Districts.
- Four appropriations within the Department of Environmental Protection (DEP) – General Government Operations, Environmental Program Management, Environmental Protection Operations, and Chesapeake Bay Abatement – received a total of \$20.697 million from a federal indirect account in 2013/14. However, these appropriations will only receive \$10.5 million from this federal indirect account in 2014/15 – a planned reduction of \$10.197 million. To offset this loss, the Republican proposal increases these appropriations by \$10.882 million.



## Other Areas

### **Agriculture**

- Under the Republican budget proposal, Agriculture is funded as it was in the governor's proposal.
- However, the House Republicans restore appropriations that the governor's proposal did not, as these appropriations are usually legislative "add backs".
- The Republican proposal also cut the Transfer to Agricultural College Land Scrip Fund (Penn State University) appropriation by \$1.5 million, as compared to the governor's proposal, which takes the funding back to the 2013/14 funding level.
- Some Agriculture appropriations are now funded by the Race Horse Development Fund, one of which is Pennsylvania Fairs. The Republican proposal eliminates the governor's proposed increase of \$1 million, which leaves funding at the 2013/14 funding level of \$3 million.
- The proposal provides \$100,000 more for the State Food Purchase Program, as compared to the governor's proposal.

### **Community & Economic Development**

- The Republican proposal takes away Gov. Corbett's \$500,000, 4.2 percent, increase for the Partnerships for Regional Economic Performance (Small Business Development Centers, Local Development Districts, Industrial Development Assistance, and Industrial Resource Centers).
- The Republican proposal reinstates programs proposed to be eliminated by Gov. Corbett: Pennsylvania Infrastructure Technology Alliance, Supercomputer Center, Powdered Metals, and Tourism – Accredited Zoos.
- Compared to Gov. Corbett's proposal, the Republican proposal increases the Marketing to Attract Tourists appropriation by \$3.629 million, but it cuts the Keystone Communities program (Main/Elm Street, Accessible Housing, Housing Redevelopment) by \$5.299 million, or 49.1 percent.
- Overall, compared with Gov. Corbett's proposal, the Republican proposal reduces the Department of Community and Economic Development's state General Fund budget by \$37.8 million, or 15.7 percent, to pay for increases elsewhere in the budget.
- The proposal cuts Grants to the Arts by nearly 5 percent as compared to the governor's proposal.

### **Labor & Industry**

- The transfer to the Vocational Rehabilitation Fund is level funded, removing the governor's proposed \$1 million initiative to provide on-the-job training for young people with disabilities.
- The proposal includes the New Choices/New Options program. The governor had eliminated this program in his budget proposal.

### **Row Offices**

- The Republican budget proposal for the Attorney General is the same as the governor's at \$87.290 million – which is flat compared to 2013/14. This still leaves the Attorney General about \$12 million shy of her budget request for fiscal year 2014/15.
- Funding for the Office of Auditor General is held flat in the Republican proposal.
- The Republican proposal reduces funding for the Treasury Department's Information Technology Modernization; however, the Treasurer has indicated that he is willing to reduce the request to this amount.