



2010/11 General Fund Budget

House
Committee on
Appropriations

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2010/11 Budget Overview

On June 30, 2010, the House passed the General Appropriations bill. This plan was developed as we emerge from the most serious economic emergency since the Great Depression. While we did not experience a revenue shortfall as serious as last year, we continue to grapple with the after-shocks of a wounded world-wide financial system and dramatic unemployment. Pennsylvania has fared better than many states, but the fiscal issues will demand careful consideration for years to come. While most state programs received cuts, this budget protects the integrity of basic education funding with an increase of \$250 million.

The commonwealth's 2010/11 operating budget contains total state and federal appropriations of approximately \$52.8 billion, an increase of \$1 billion, or two percent, over the 2009/10 budget of \$51.8 billion. This includes appropriations for the state General Fund, federal funds, the Motor License Fund, and other special funds (i.e. Lottery Fund and Tobacco Settlement Fund). State expenditures from all funds decrease by about \$199 million for the 2010/11 budget year, or about 0.7%, and federal funds increase by \$1.2 billion or 5.2%. In the recently enacted budget, state funds make up 54 percent of total funds compared with 55 percent in 2009/10 and 63 percent in 2008/09.

The General Fund represents the largest portion of state and federal spending and is the fund over which policymakers have the most influence on expenditures. For 2010/11, the General Fund includes about \$25.3 billion in state revenue and assumes \$2.76 billion in federal American Reinvestment and Recovery Act (ARRA) enhanced Federal Medical Assistance Program (FMAP) and fiscal stabilization funds for a total of just over \$28 billion. This budget is built on the assumption that the federal government will extend the ARRA FMAP for two quarters, through June 2011.

Significant cuts totaling nearly \$1.02 billion are made to appropriations in an effort to align General Fund expenditures with available revenues. On the funding side, no broad based taxes are used to balance the budget; however, a variety of methods are utilized to close the budget gap, which includes transfers and efficiencies that are expected to generate revenue. Most administrative and discretionary appropriations (those without a state, federal or other mandate) were subject to a cut of at least 0.8%. Increases in the enacted budget largely reflect mandated payments (such as debt service and corrections costs) and an investment in basic education.

Closing the General Fund Budget Gap

The Governor's Executive Budget proposed in February 2010 provided for General Fund expenditures totaling just over \$29 billion comprised of nearly \$27.3 billion in state funds and approximately \$2.8 billion in assumed federal ARRA enhanced FMAP and fiscal stabilization funds. Throughout the 2009/10 fiscal year, revenues ran short of estimate. When combined with updated economic forecasts, the effect on available revenues for the upcoming budget year was significant. The result was a budget shortfall between expected revenues and proposed spending totaling roughly \$1.5 billion. The enacted 2010/11 budget addresses the budget gap with adjustments to funding sources and expenditures that are in addition to the February proposed Executive Budget.

Adjustments that affect funding sources, which are worth approximately \$459.4 million, include the following:

- Enhanced revenue collection efforts and improvements in the processing of tax returns, resulting in fewer tax refund errors that are expected to result in a net amount of \$64.3 million for 2010/11.
- Revised estimates of tax refunds which are expected to result in an additional \$275 million in revenue over the 2009/10 and 2010/11 fiscal years.
- Additional prior year lapses worth \$90.4 million (balances from prior year appropriations) carried on the financial statement that contribute to available funding sources (total funds available).

- Transfers for 2010/11 from special funds to the General Fund that are in addition to the February proposed budget and contained in an amendment to the Fiscal Code are estimated at roughly \$30 million. They include:
 - \$745,000 from the Budget Stabilization Reserve Fund.
 - \$5 million from the Emergency Medical Services Operating Fund.
 - \$800,000 from the Highway Beautification Fund.
 - \$10 million from the Keystone Recreation, Park and Conservation Fund due to a suspension of funds for the State System of Higher Education deferred maintenance program for the second year in a row.
 - \$1 million from the Local Government Capital Project Fund.
 - \$2.7 million from the Low-Level Waste Fund.
 - \$5.4 million from the Pennsylvania Economic Revitalization Fund.
 - \$4 million from the Small Business First Fund.

Adjustments that affect expenditures include the following net reductions totaling approximately \$1.02 billion:

- \$271 million in the state appropriation for Payment to the Federal Government – Medicare Drug program under the Department of Public Welfare (DPW) as a result of a federal policy change regarding the “clawback” payment.
- \$121 million in the Medical Assistance – Inpatient state appropriation in DPW as a result of additional funds available from a statewide hospital assessment.
- \$121 million in the state appropriation for school employees’ retirement, which will be offset by a transfer of Tobacco Endowment funds to a restricted account to be used to augment this appropriation.
- \$506 million in other net reductions in General Fund appropriations throughout the budget. Note that part of these reductions includes \$10 million of savings through rebate programs from the maximization of the use of purchase cards.

General Fund State Deposits

The total amount of state money available to spend each fiscal year includes deposits received in that year, along with the balance carried over from the immediate prior year and unspent money from previous budgets. Taxes collected from individuals and businesses comprise the largest portion of the state’s deposits. Fees and other non-tax revenue (such as profits from the Liquor Control Board) make up the remainder of deposits.

The total revenue shortfall at the end of 2009/10 was \$1.2 billion, more than twice what the Administration had estimated it would be.

According to certified revenue estimates for 2010/11, General Fund revenue receipts are estimated to be \$26.7 billion, a decline from 2009/10 of 3.4%. Although total tax revenue is expected to grow at approximately 3.1%, an offsetting loss of non-tax revenue leaves an overall decline in General Fund revenue of \$936.5 million. *Note that 2010/11 revenue also includes additional one-time funds enacted in the budget package – \$180 million from the Oil and Gas Lease Fund, as well as \$30 million in transfers from special funds, as mentioned above.*

No tax increases are associated with this budget. The only tax change associated with this budget is an increase in the amount of credits available to be awarded as part of the Educational Improvement Tax Credit. The cap on the total amount of credits was increased from \$50 million to \$60 million for the

2010/11 fiscal year. This is estimated to cost the General Fund \$8 million in 2010/11. The cost differs from the increase in the cap because of the manner in which business tax liabilities spread across fiscal years.

General Fund State Expenditures

Overview

The following table shows the state appropriations for fiscal year 2010/11, as well as the dollar amount and percentage change from fiscal year 2009/10.

<i>\$s in millions</i>	2010/11 Expenditures			
	2009/10	2010/11	\$ Change	Percent Change
State Appropriations	\$27,836	\$28,043	\$207	0.74%
Lapses	(\$195)		\$195	
Federal Stimulus	(\$2,698)	(\$2,755)	(\$56)	2.09%
Adjusted Total	\$24,942	\$25,289	\$346	1.39%

Effect of Federal Funds

The federal American Recovery and Reinvestment Act of 2009 (ARRA) provided fiscal relief to the states by increasing the federal Medical Assistance percentage (FMAP) for state Medicaid programs and by allocating Fiscal Stabilization Funds which states may use for education and other public safety services. These funds have been critical in helping states address unprecedented budget deficits during the current economic downturn.

- Pennsylvania is using its Fiscal Stabilization Funds to help fund the agency budgets for the Departments of Education, Corrections and General Services.
- The additional ARRA FMAP is used to pay for Medical Assistance and other Medicaid-related programs that serve individuals with mental retardation, autism and physical disabilities. The ARRA FMAP reflects state Medicaid expenditures that are temporarily shifted to the federal government during the stimulus period.

As authorized under ARRA, the Fiscal Stabilization Funds are available through fiscal year 2010/11 whereas the enhanced FMAP is available only for the first two quarters of 2010/11 as it is scheduled to end after December 2010. (Specifically, ARRA temporarily increased each state's FMAP for the nine quarters beginning October 2008 through December 2010.) The United States Congress continues to debate legislation that would extend the enhanced FMAP beyond December 2010. The enacted budget anticipates the commonwealth will continue to receive the enhanced ARRA FMAP for all four quarters of 2010/11.

Federal ARRA Funds Used to Offset State Appropriations		
(Dollars in Thousands)		
ARRA Fund Type / State Agency	FY 2009/10	FY 2010/11
Enhanced Federal Medicaid Match (FMAP):	\$ 1,776,682	\$ 1,834,729
Public Welfare	1,776,682	1,834,729
State Fiscal Stabilization Fund:	\$ 921,384	\$ 921,384
Corrections	172,911	172,911
General Services	500	500
Education		
Basic Education	654,747	654,747
Higher Education	93,226	93,226
Total Federal ARRA Funds	\$ 2,698,066	\$ 2,756,113

Altogether, ARRA funds offset (or reduce) state spending by approximately \$2.7 billion in 2009/10 and \$2.75 billion in 2010/11. Accounting for these ARRA funds, the proposed 2010/11 General Fund spending is \$28 billion (\$25.3 billion in state appropriations plus approximately \$2.756 billion in ARRA appropriations). The table above details the distribution of these ARRA funds by department.

Redevelopment Assistance Capital Program (RACP)

As part of the 2010/11 budget package, the General Assembly increased the Commonwealth's General Obligation borrowing authority for the Redevelopment Assistance Capital Program (RACP) by \$600 million. The debt limit for the program was increased from \$3.45 billion to \$4.05 billion to further the Commonwealth's prospects to improve economic growth, create jobs and leverage private investment.

Pension Rate Spike

Both the **Public School Employees Retirement System (PSERS)** and the **State Employees Retirement System (SERS)** face a significant rate spike starting in fiscal year 2012/13. Based upon the latest available data, the commonwealth's General Fund share of the contribution in 2012/13 will increase from \$970 million to \$2.8 billion, \$1.86 billion, (nearly \$2 billion for PSERS and more than \$840 million for SERS).

In an attempt to mitigate the drastic funding increase in 2012/13, the House proposed a two part solution by passing House Bill 2497. First, the bill implemented a "fresh start" for pension system liabilities along with an "incremental phase-in" to higher employer contribution rates. The fresh start initiative would re-amortize liabilities over 30 years and the proposed phase-in would limit the annual contributions in incremental stages over a 10 year period. When combined, these methodologies mitigate the dramatic rate spike faced by the state and school districts. Second, the bill reduces the level of benefits for future employees, including the elimination of Option 4 (lump sum) payouts upon retirement. This change, while having no immediate impact on the unfunded liabilities of the systems, provides for greater financial stability in the future for both PSERS and SERS. House Bill 2497 currently awaits action in the Senate.

Public School Employees' Retirement System (PSERS)

This budget establishes an employer contribution rate for 2010/11 of 5.64% for PSERS, the same level proposed by the governor. Prior to enactment of the budget, PSERS had certified an employer contribution rate of 8.22% for 2010/11. Without legislation, General Fund expenditures would have increased by almost \$140 million to meet the Commonwealth's portion of the employer contribution

rate. School districts have budgeted for employer contribution payments at the 8.22% rate, and will realize a combined savings of \$209 million with the reduced 5.22% rate.

The employer contribution rate is based upon a percentage of payroll. On average, the Commonwealth funds 55 percent of the total for the employer contribution towards retirement for PSERS; school districts average 45 percent of the total payment. For 2010/11, this amounts to \$408 million to the General Fund. The school employees' retirement line in the education budget is funded at approximately \$287.6 million, and the remaining \$121 million will be offset by a transfer of Tobacco Endowment Funds to a restricted account to be used to augment this appropriation. A transfer of \$121 million from the Tobacco Settlement Fund will fund the remaining portion of the \$408 million total payment.

State Employees' Retirement System (SERS)

This budget establishes an employer contribution rate of five percent for 2010/11 for SERS, the same level included in the governor's proposal. Prior to enactment of the budget, SERS had certified an employer contribution rate of 5.6% for 2010/11. Without legislation, General Fund expenditures would have had to increase by \$38 million to meet the General Fund portion of the employer contribution rate.

The employer contribution rate is based upon a percentage of payroll. On average, the General Fund pays approximately 50 percent of the employer contribution rate for SERS. The remaining payments are made from other funds, such as the Motor License Fund, or from agencies not directly under the Governor's jurisdiction, such as the State System of Higher Education.

Row Offices

Attorney General

The Office of the Attorney General will receive \$83 million in 2010/11, or \$3.5 million less than in 2009/10. The largest cut is in the operations budget which will receive \$38.5 million, \$1.9 million (or 4.8%) less than in 2009/10. The Drug Law Enforcement appropriation under the Attorney General will receive \$24 million, a cut of nearly five percent, or \$1.2 million less than in 2009/10.

Two programs that will receive slight increases are the Witness Relocation Program and the Joint Local-State Firearm Task Force.

Auditor General

The 2010/11 budget bill appropriates \$44.28 million in State General Funds for the Auditor General's operations budget. This is a reduction of \$2.2 million (or 4.8%) from 2009/10. The Auditor General had requested a seven percent increase over 2009/10. The Board of Claims which is listed under the Auditor General is appropriated \$1.72 million for 2010/11. This is a reduction of \$86,000 or 4.8% from 2009/10.

Treasury

The Department of the Treasury's general fund budget will increase \$55.2 million for 2010/11. The overall increase largely reflects funding for the following debt-related obligations:

- General Obligation debt service, which increases by \$43.9 million.
- Tax Anticipation Note Interest which increases by \$8.7 million.
- Tax Anticipation Note Expenses which increases by \$453,000.

Treasury's operations budget is cut by \$1.7 million (or 4.8%).

The budget also includes \$3.3 million in new funding for **information technology modernization**. The department is operating with Nixon-era computer mainframes that are in need of replacement and

continually run the risk of breaking down. Such a breakdown would greatly impair the ability of the commonwealth to process its financial transactions. Replacing and upgrading all of the Treasury's systems is expected to cost approximately \$42 million over several years.

Public Safety

Corrections

The 2010/11 budget for the Department of Corrections is \$1.69 billion in state funds, an increase of 5.1% over 2009/10.

The budget increases the **Inmate Medical Care** (6.1%) and the **State Correctional Institution** (5.4%) appropriations. Inmate medical care will increase nearly \$14 million to \$243.5 million. The State Correctional Institution appropriation will increase \$70.3 million to nearly \$1.4 billion. Similar to 2009/10, the state correctional institution (SCI) appropriation will be bolstered by \$173 million in funding from ARRA State Fiscal Stabilization funds.

As of May 31, 2010, there were 47,926 inmates (not including inmates in county or out-of-state jails). The total number of inmates under DOC supervision is 50,622. Pennsylvania's SCI's at full capacity hold 43,584 inmates; therefore, the commonwealth was 111 percent of capacity as of December 31, 2009. Pennsylvania is 117 percent over capacity if inmates in county and out-of-state jails are included. DOC currently has 593 inmates housed in county jails within the commonwealth and 2,131 inmates housed in Michigan and Virginia.

Pennsylvania Board of Probation and Parole

The 2010/11 budget appropriates \$120.5 million for the Pennsylvania Board of Probation and Parole (PBPP). This is a 2.4% increase or nearly \$2.9 million more than 2009/10. The Governor requested funding for **additional parole officer positions** to improve parolee supervision and to reduce the likelihood of repeat offending. However, because PBPP did not receive that level of funding, additional agents for the agency may be in jeopardy for 2010/11. An insufficient number of agents could prove costly for the Commonwealth as it costs approximately \$35,000 to house an inmate in a state correctional institution and about \$3,000 per year to supervise an offender on parole.

PBPP's **General Government Operations** appropriation and **Sexual Offenders Assessment Board** will receive increases in funding. However, funding for **Improvement of Adult Probation Services** is cut by \$17.6 million, a decrease of 5.7%. This reduction will affect county reimbursements.

Commission on Crime and Delinquency

The 2010/11 budget cuts the appropriation to the Pennsylvania Commission on Crime and Delinquency (PCCD) by 8.8%, to \$3.2 million. Fortunately, many programs receiving federal funding are either level-funded or increased; however, state programs receive significant cuts under the proposal. These programs include: **Victims of Juvenile Crime, Evidence-Based Prevention and Intervention, Weed and Seed, Intermediate Punishment Programs, Intermediate Punishment Drug and Alcohol Treatment, and Research-Based Violence Prevention.**

The appropriation for the **Victims of Juvenile Crime** is \$3.35 million, of which \$1.64 million is one-time federal ARRA money. The state contribution to this program is \$1.72 million.

Pennsylvania State Police

The 2010/11 budget for the Pennsylvania State Police (PSP) provides for a 3.9% decrease in General Funds and a 2.8% increase in the Motor License Fund. Overall, PSP can expect a 1.1% increase in funding, for a total of \$709 million. While the Governor's original budget included \$5.1 million for a cadet class, it is not certain that a cadet class will materialize since PSP will not receive that level of funding.

The budget reduces the **Law Enforcement Information Technology** appropriation, **Gun Checks**, and the **Automated Fingerprint ID System**.

The budget reduces the **Municipal Police Officers' Education and Training Commission**. These levels continue to cause concern for local municipalities hoping to have their officers newly certified or maintain certification.

Judiciary

The 2010/11 budget flat funds all appropriations within the Judiciary for a total General Fund cost of \$276.9 million. The Judiciary's budget request for 2010/11 was \$341.1 million in state funds.

According to the Administrative Office of Pennsylvania Courts (AOPC), current projections indicate a shortfall of \$64.2 million in the Judiciary budget for 2010/11. After adjusting for judges not receiving a COLA and higher vacancy rates than originally projected in 2009/10 for common pleas and magisterial district judge appropriations, and the collection of roughly \$29.4 million from Act 49 of 2009 surcharge fees, the Judiciary budget shortfall for 2010/11 is approximately \$34.8 million.

At the request of the Judiciary, Act 49 of 2009 included additional surcharges on court filings for a 25-month period. The use of funds from Act 49, along with transfers from dedicated funds, will be required to resolve deficits within the Judiciary budget. Because Act 49 went into effect in the middle of a fiscal year, only five months of revenues were received, far less than the amount anticipated. The Judiciary shortfall for 2009/10 was plugged by the courts borrowing \$19.4 million from their computer account. The overall judiciary budget shortfall for 2010/11 will be \$54.2 million.

On April 27, 2010, Chief Justice Castille sent a letter to Governor Rendell, asking the Governor to delay nominating interim judges, to open judicial posts as a temporary cost-savings measure for the Judiciary.

Education

Basic Education

The 2010/11 budget funds the **basic education subsidy** at more than \$5.77 billion, an increase of \$250 million or 4.52%. For 2010/11, **each school district is guaranteed a two percent minimum increase** above its 2009/10 level. The total subsidy payment consists of \$5.12 billion in state funds and \$654.7 million in federal stimulus funds. A combined total of \$1.3 billion in federal stimulus funds is allocated for basic education in 2009/10 and 2010/11. Fiscal year 2010/11 represents the final payment of these federal funds.

Fiscal year 2010/11 marks the third year of the new basic education subsidy formula. This formula is based on the findings and recommendations of the **Costing-Out Study** (Act 114 of 2006) by calculating the state share of funding to provide "adequate" and "equitable" spending for each commonwealth school district. The new formula that resulted from this study was first applied in 2008/09. This formula identified an adequacy target by calculating a base cost to educate each student, then adjusting that amount for individual districts based upon variables such as low-income, district size and geographic location. This target amount was then compared to the actual district per student expenditures to determine the adequacy funding shortfall. The proposed state share of the shortfall was then calculated to be phased-in over a six year period. However, as with 2009/10, the 2010/11 funding falls short of the original target for the state share funding of the adequacy target. Therefore, increasing the state share to the fully recommended level will most likely take longer than six years.

Traditionally, school districts receive *at least* the amount of basic education funding that is proposed in the governor's February budget. However, for fiscal year 2010/11, the final funding for basic education is approximately \$104 million less than the governor's proposal. As such, most school districts will see a reduction when comparing the June basic education funding by school district to the February

proposed basic education funding by school district. Three changes are made to the June basic education breakout by school district that, when combined, account for a subsidy allocation change for individual districts:

1. Calculations of the basic education subsidy formula remain the same as in 2009/10 except for the *state share phase-in* amount. This is the percentage of the total state portion of the adequacy gap funding that will be allocated for 2010/11. Because there is a reduction of \$104 million in the total subsidy, this phase-in amount is decreased. In February, the state share phase-in was 37.17% for each district; in the final budget, the state share phase-in is 32.06%.
 - a. The state share phase-in amount is the annual portion of the adequacy shortfall in funding that the state is paying for in the current budget year.
2. Data elements for each district, including average daily membership, equalized mills, and aid ratio, were updated *at the same time* that the subsidy decrease was put into place. These data elements affect the formula calculations for each district.
 - a. **“Average daily membership”** is the term used for all resident students for whom the district is financially responsible. This represents the number of students for which the district receives funding.
 - b. **“Equalized mills”** is a calculation of each school district’s taxes and market value. A higher equalized mill rate means both a higher tax effort by the district and may mean higher state share towards the adequacy target.
 - c. **“Aid ratio”** measures the relative wealth of a school district in terms of market value and personal income. A high aid ratio corresponds to less wealthy school districts and also may mean a higher amount of state share funding.
3. A correction was made by the Department of Education in June 2010 to the 2009/10 total base cost for each school district. This base cost is part of the basic education subsidy calculation and was not reflected in the February proposed basic education funding spreadsheet.

Note: These changes in the data elements and the base cost make it difficult to compare the subsidy reduction among different school districts. In some cases, a district may receive a more severe subsidy reduction than a similar district due to the changes outlined above.

Other than the basic education subsidy most education lines are either flat-funded or reduced. The new Teacher Certification line, proposed by the governor in February at \$2.4 million, is eliminated from the budget. The budget funds the **Accountability Block Grant**, introduced in the 2004/05 budget to provide funding for programs such as pre-kindergarten, at \$259.5 million. This represents a decrease of 4.4%.

The 2010/11 budget funds the **Education Assistance Program** at \$47.6 million, a reduction of \$11.5 million from the 2009/10 level. This program provides extra tutoring services for students in school districts and Career and Technical Centers.

Early Learning

The budget funds **Pre-K Counts** at \$85.24 million to provide early learning opportunities to approximately 11,800 children. This funding level represents an almost \$1.2 million decrease from 2009/10.

The 2010/11 budget provides \$38.4 million for **Head Start Supplemental Assistance** which supplements the federal Head Start program to provide early learning opportunities to approximately 5,700 eligible children. This is a \$1 million reduction from the 2009/10 level.

Funding for **Early Intervention** is \$182.1 million, an increase of \$8.5 million or nearly five percent. This program provides early learning opportunities for developmentally delayed school age children. Approximately 47,000 children are expected to participate in this program for 2010/11 and the Department of Education expects to utilize \$9.7 million in ARRA funding towards this program.

Special Education

Special education receives the same funding as in 2009/10, nearly \$1.03 billion. Charter Schools for the Deaf and Blind and the Approved Private Schools receive a formula increase based upon 125 percent of the increase in the special education subsidy appropriation. Because this is the second fiscal year that the special education subsidy receives level funding, Charter Schools for the Deaf and Blind and the Approved Privates Schools are also level funded in the 2010/11 budget.

Public Library Subsidy

The budget funds the **Public Library Subsidy** at \$54.55 million. This represents a decrease of \$5.4 million compared to 2009/10. While the level of library funding is unfortunate, it still has not reached the decade long low point of \$47.5 million in 2002/03.

Higher Education

As was the case in 2009/10, the 2010/11 budget package uses a combination of state and federal ARRA funds for higher education. **Community colleges**, the **State System of Higher Education**, **Thaddeus Stevens College of Technology** and the **state-related universities** will receive the same allocation as in 2009/10.

The **University of Pennsylvania** veterinary school is funded at \$29.75 million. Additionally, the Center for Infectious Diseases will receive \$248,000.

The grants to students program administered by the **Pennsylvania Higher Education Assistance Agency (PHEAA)** will receive \$388.3 million in funding. This represents a 3.8% cut from 2009/10. Other PHEAA line items also received cuts.

Higher Education: State and ARRA Funds			
	2008/09	2009/10	2010/11
Community Colleges	\$236,240	\$235,741	\$235,741
State	\$236,240	\$214,217	\$214,217
ARRA	\$0	\$21,524	\$21,524
State System of Higher Education	\$524,236	\$503,355	\$503,355
State	\$497,168	\$465,197	\$465,197
ARRA	\$27,068	\$38,158	\$38,158
Pennsylvania State University	\$335,046	\$333,863	\$333,863
State	\$318,073	\$318,072	\$318,072
ARRA	\$16,973	\$15,791	\$15,791
University of Pittsburgh	\$169,134	\$167,995	\$167,995
State	\$160,490	\$160,490	\$160,490
ARRA	\$8,644	\$7,505	\$7,505
Temple University	\$173,904	\$172,737	\$172,737
State	\$164,974	\$164,974	\$164,974
ARRA	\$8,930	\$7,763	\$7,763
Lincoln University	\$14,453	\$13,782	\$13,782
State	\$13,623	\$13,623	\$13,623
ARRA	\$830	\$159	\$159
Thaddeus Stevens College of Technology	\$10,700	\$10,876	\$10,876
State	\$10,293	\$8,550	\$8,550
ARRA	\$407	\$2,326	\$2,326

Educational Improvement Tax Credit

The Educational Improvement Tax Credit (EITC) was temporarily reduced below the \$75 million level that was expected for 2009/10 and 2010/11 as a result of Act 48-2009. Per Act 48, the total credits to be awarded were capped at \$60 million and \$50 million for 2009/10 and 2010/11, respectively.

According to a recent amendment to the Fiscal Code, the EITC cap will increase from \$50 million to \$58 million for 2010/11. Thereafter, the EITC cap will be \$75 million annually.

Environment

The 2010/11 budget appropriates \$82.44 million from the General Fund to the **Department of Conservation and Natural Resources**. That is a reduction of \$9.93 million from the 2009/10 appropriation. The appropriations most notably impacted are those for State Parks and State Forests Operations. However, the impact of the reduction to State Forests Operations will be minimized due to additional revenues from timber sales that will be used for forest management.

The **Department of Environmental Protection's** state appropriation for 2010/11 is \$145.18 million, a reduction of \$13.87 million from the 2009/10 appropriation. The appropriations for Environmental Program Management and Environmental Protection Operations are the most significantly affected, receiving a combined reduction of \$9.06 million.

Public Welfare

State General Funds for the Department of Public Welfare (DPW) total \$8.607 billion for 2010/11, a \$62 million decrease from 2009/10. This assumes the ARRA FMAP will be extended two quarters, through June 2011, and Pennsylvania will receive approximately \$850 million in additional federal Medicaid matching funds to pay for DPW programs.

The 2010/11 state budget represents a \$545 million cut from the Governor's February budget request. Most of these cuts (\$407.5 million) can be attributed to two factors: reduced "clawback" payments to the federal government for Medicare Part D and state savings from a proposed statewide hospital assessment.

- **Clawback Payment Savings (\$286.5 million).** The state appropriation for **Payment to Federal Government – Medicare Drug Program** (the so-called "clawback" payment) is significantly decreased to reflect a federal policy change announced in late February which reduced the monthly payments states are mandated to make for dual eligibles enrolled in the federal Medicare Part D program – "dual eligibles" are low-income elderly and disabled who receive both Medicare and Medicaid benefits. This federal policy change, together with lower enrollment projections and per capita costs for the Part D program, explain the reduced appropriation.
- **Statewide Hospital Assessment Savings (\$121 million).** Changes to the Public Welfare Code authorize DPW to impose an assessment on most Pennsylvania hospitals for three years, beginning in 2010/11. The assessment would be applied to the hospital's net inpatient revenue at a rate of 2.69 percent in 2010/11 and 2.84 percent in 2011/12 and 2012/13. The statewide hospital assessment is expected to generate \$498 million in 2010/11, of which the first \$120.9 million would go to DPW to reduce the state appropriation for **MA- Inpatient** services. The remaining assessment revenue, plus federal Medicaid matching funds, would be used to benefit Pennsylvania hospitals as follows: (1) fund a new Medical Assistance hospital payment system (APR-DRG) that more appropriately supports patient needs and the levels of service unique to Medical Assistance patients; (2) restore the 2010/11 Executive Budget cuts to existing supplemental payments for qualifying hospitals; and (3) fund new supplemental payments to hospitals.

The budget further reduced DPW state spending by \$24.8 million below the Governor's request through the following two measures: cutting various administrative line items in the department and applying across the board cuts to certain human services programs. The savings are summarized below:

- **Administrative Cuts (\$21.1 million).** The enacted budget cut expenses for personnel and/or operations in the following administrative line items: **General Government Operations; Information Systems; Child Support Enforcement; County Assistance Offices;** and **Statewide County Administration.**
- **Across the Board Cuts (\$3.7 million).** The enacted budget applied broad-based cuts to a number of health and human services appropriations in DPW. The following human service lines were cut 0.8 percent from their 2009/10 funding levels: **Community MR Base Program; Special Pharmacy Services; Homeless Assistance; Child Care Assistance; Domestic Violence; Rape Crisis; Breast Cancer Screening;** and **Expanded Medical Services for Women.** The two appropriations which fund payments to medical schools – **Academic Medical Centers** and **Physician Practice Plans** – were cut three percent from their 2009/10 funding level. Finally, **Behavioral Health Services** grants to county programs were cut 3.8 percent from its 2009/10 level.

Several other human service programs in DPW's budget received state appropriations less than amounts requested in the Governor's Executive Budget proposal. The reasons for these cuts were specific to the appropriation and are explained below.

- **County Child Welfare** was cut by \$26.443 million compared with the Governor's request. Please note that \$7.8 million of that reduction was the result of an ARRA Title IV-E recalculation and will be offset with federal funds. The remainder of the reduction was the result of across-the-board reductions throughout the department. The amount proposed in February was based on the counties' Needs-Based Budget reconciliation. County allocations will need to be revised to reflect the new spending level.
- **New Directions** was reduced by \$15.4 million from the Governor's request. This reduction will be offset with federal Temporary Assistance for Needy Families (TANF) block grant funds.
- **Mental Health Services** was cut \$15.5 million; however, \$10 million of this was due to the availability of other funds (including federal Medicare dollars) that reduced the need for state General Funds. The remaining reduction was not targeted – at this time, it is too soon to determine how DPW will use available funds. Savings from the December 2010 closure of Allentown State Hospital will be used, as proposed by the Governor, to move 155 current hospital residents into community mental health programs in 2010/11.
- **Autism Intervention and Services** was cut \$5.5 million, most of which was due to lower than anticipated costs to serve adults in the Autism Waiver program (\$5.4 million). The remaining \$109,000 reduction reflects a 0.8 percent across the board cut in the appropriation to expenditures not related to the Autism Waiver program nor the Adult Community Autism Program (ACAP). As requested by the Governor, the Autism Waiver and ACAP programs are budgeted to serve an additional 226 adults in 2010/11, increasing total enrollment in these two programs to 408 adults by June 2011.
- **Attendant Care** is \$8.1 million less than the Governor's request. The budgeted funds provide continued services for disabled individuals currently in the Act 50 program and the Attendant Care Waiver.
- **Early Intervention** reflects a \$3.2 million reduction from the February proposed amount. This reduction is the result of updated ARRA calculations and will be offset with those available federal funds.

- **Supplemental Grants** was reduced by \$512,000. The new appropriation amount also reflects adjustments in the caseload and grant costs, based on available data.

Not all DPW appropriations were cut below the Governor’s request.

- Funding for **Child Care Services** remains at the original proposed amount. ARRA provisions for federal child care funding require state funding to be maintained at a certain level. The appropriation amount complies with these provisions.
- The budget maintains \$6.2 million for the proposed expansion of **Services to Persons with Disabilities** to an additional 770 individuals, as requested by the Governor.
- Funding for **Community MR Waiver Programs** is \$8.9 million above the Governor’s Executive Budget request.

Finally, the enacted 2010/11 Medical Assistance budget includes \$3.883 billion in state General Funds for the five major MA appropriations: Outpatient, Inpatient, Capitation, Long Term Care, and Payment to Federal Government for Medicare Drug Program. Total funding (state, federal and other funds) for MA is \$16.8 billion – this includes \$850 million in federal funds anticipated from an extension of the ARRA FMAP through June 2011 and \$498 million in other funds generated from the new statewide hospital assessment. With these funds, **DPW anticipates providing MA benefits and services to more than 2.1 million individuals (or one out of every six Pennsylvanians) during 2010/11** – this is an increase of 2.9 percent over 2009/10 average monthly enrollment in the MA program.

(Dollars in Millions)

	FY 2010/11
Medical Assistance Appropriations	State Funds
MA - Outpatient	\$357.4
MA - Inpatient	\$267.0
MA - Capitation	\$2,478.4
Long-Term Care	\$584.1
Payment to Federal Government - Medicare Drug Program	\$196.1
Total Medical Assistance	\$3,883.0

The MA budget represents a \$47 million decrease from 2009/10 and a \$467 million decrease from the Governor’s 2010/11 Executive Budget request. Most of the reduction in the MA budget is due to the reduced “clawback” payment to the federal government for Medicare Part D (\$286 million) and savings from the proposed statewide hospital assessment (\$121 million savings to the **MA-Inpatient** appropriation), both of which were explained earlier.

Another significant factor contributing to the reduced need for state funds in the 2010/11 MA budget is the federal drug rebates DPW will now receive for drugs dispensed in the managed care program. Federal health care reform enacted in March included provisions extending the federal Medicaid Drug Rebate Program to managed care organizations. As a result of this change, DPW expects to claim an estimated \$102.5 million in federal drug rebates during 2010/11. The drug rebate savings are reflected in the enacted state appropriation for **MA-Outpatient** services – please note that these savings already were assumed in the Governor’s February budget request.

Other highlights in the 2010/11 MA budget include the following:

- **Full restoration of hospital supplemental payments** – Outpatient Disproportionate Share, Inpatient Disproportionate Share, Medical Education, and Community Access payments – that were cut in the Governor’s Executive Budget proposal. As explained earlier, the state share of the restored payments (\$25.6 million) would be funded with revenue from the proposed statewide hospital assessment.
- Funding for the Governor’s requested **rate increases for managed care organizations** – an average increase of four percent for physical health and an average increase of two percent for behavioral health. Individual plans will be paid actuarially-sound rates.
- Funding for the **2008/09 pay-for-performance payments** to physical health managed care organizations.

Tobacco Settlement Fund

Fiscal Code

The General Assembly amended the Fiscal Code to redirect tobacco revenues for purposes other than those specified in Act 77 and to transfer certain tobacco monies to other funds and accounts. The various redirects and transfers are explained below.

The 2010/11 budget redirects \$121.3 million of tobacco revenues. This reflects changes made this year to the Fiscal Code (Senate Bill 1042) as well as changes enacted last year under Act 50 of 2009, the Fiscal Code bill that accompanied the 2009/10 budget. Senate Bill 1042 redirects \$106.6 million of the following tobacco revenues to Medical Assistance Long-Term Care and Life Sciences Greenhouses:

- Interest and earnings from the Tobacco Settlement Fund (\$15 million).
- The strategic contribution payment that otherwise would be deposited in the Health Endowment Account (\$23 million).
- All of the annual funding allocation for the Health Endowment Account (\$26.1 million)
- One-third of the annual funding allocation for Health Investment Insurance (\$32.7 million). This one-third redirection is the same as the funding shift enacted for the 2007/08 budget.
- One-fourth of the funding allocation for Tobacco Use Prevention and Cessation (\$9.8 million). This one-fourth redirection is the same as the funding shift enacted for previous budgets, including the 2007/08 budget.

In accordance with a provision in Act 50 of 2009, another 37.5 percent (\$14.7 million) of the annual funding allocation for Tobacco Use Prevention and Cessation is transferred to the General Fund in 2010/11. Monies transferred under this provision are not earmarked for any specific purpose.

In addition, Senate Bill 1042 includes the following transfer provisions for 2010/11:

- Repeals the \$250 million transfer from the Health Endowment Account to the General Fund. This transfer was among the provisions included in Act 50 of 2009.
- Transfers \$250 million from the Tobacco Settlement Fund to the General Fund.

- Transfers \$121 million from the Tobacco Endowment Account to a new General Fund restricted receipts account, created to augment the appropriation of the required contribution for public school employees' retirement.
- Transfers any remaining assets, cash, and investments in the Tobacco Endowment Account to

Revenues and Expenditures

The 2010/11 budget includes a total of \$735.8 million in revenues from the Tobacco Settlement Fund and the Health Endowment Account. This includes:

- \$326.85 million in annual payments remitted by tobacco companies to Pennsylvania during 2009/10, a \$65.9 million decrease from the prior year.
- \$23 million in strategic contribution payments received by Pennsylvania in 2010.
- \$15 million of interest and earnings from the Tobacco Settlement Fund.
- \$121 million transferred from the Health Endowment Account to the restricted receipt account in the General fund for school employees' retirement.
- \$250 million transferred from the Tobacco Settlement Fund to the General Fund.

The enacted budget includes \$350.1 million of tobacco funds for Act 77 programs as well as Medical Assistance Long Term Care and Life Science Greenhouses. The table below details 2010/11 tobacco fund expenditures by program.

Due to the reduction in payments made by tobacco manufacturers in 2009/10, the Act 77 programs will receive less funding than in the prior year. Tobacco monies redirected to Medical Assistance Long Term Care are \$27 million less than 2009/10; monies redirected to Life Sciences Greenhouses did not change from prior years.

Tobacco Fund -- FY 2010/11 Program Expenditures	
<i>(Dollars in Thousands)</i>	
Funding for Act 77 Programs:	
Health Investment Insurance for Adults	\$ 65,403
<i>adult Basic Health Insurance Program</i>	10,780
<i>Medical Care for Workers with Disabilities</i>	54,623
Health Research	\$ 62,102
Home and Community-Based Services	\$ 42,490
Tobacco Use Prevention and Cessation	\$ 14,708
Hospital Uncompensated Care program	\$ 32,685
PACenet Transfer	\$ 26,148
Health Endowment Account	\$ -
Funding Redirected to Other Programs:	
Medical Assistance - Long Term Care	\$ 103,599
Life Sciences Greenhouse	\$ 3,000
Total Program Expenditures	\$ 350,135

adultBasic

adultBasic provides basic health insurance to uninsured adults, ages 19 to 64, whose income is less than 200 percent of the federal poverty level. The Insurance Department contracts with private insurers, and enrollees must contribute toward the cost of their health insurance (currently \$36 per month). Beginning in 2005/06, the Community Health Reinvestment Agreement (CHR) has provided additional funding for the adultBasic insurance program. Under the agreement, the Blue Plans pledged an ongoing commitment of funds over six years. The current agreement is set to expire in December 2010. The Blue Plans have agreed to extend the agreement throughout the end of the 2010/11 fiscal year under the provisions in the current agreement. In total, this will allow for approximately \$126 million in CHR funds (new contributions and prior year carryover) for the adultBasic program in the 2010/11 fiscal year. These funds, combined with the \$10.8 million in Tobacco Settlement funds, will result in \$140.8 million for the program.

Current enrollment in the adultBasic program is approximately 45,900. Accounting for attrition, to maintain the current program, an average of 40,500 enrollees may be assumed for the 2010/11 fiscal year. To cover that average enrollment, nearly \$160 million would be necessary. This is \$26 million short of the amount of funding available to the adultBasic program in the 2010/11 fiscal year. As a result, persons currently receiving benefits will be removed from the program, unless additional revenues are made available.

Transportation Funding

The Governor's budget forecast shows relatively flat but stable funding for highways and transit with one major exception. The Motor License Fund lost \$312.5 million due to a reduced payment from the Pennsylvania Turnpike because the federal government denied the tolling of Interstate 80; the Public Transportation Trust likewise lost \$160 million.

Act 44 of 2007 provided for payments from the Pennsylvania Turnpike Commission at two different levels after the initial three years of payments. If the Turnpike Commission were successful in converting I-80 to a toll road, then the Department of Transportation would receive a higher level of payments for the Motor License Fund and the Public Transportation Trust Fund. For 2010/2011, for example, each Fund would have received \$512.5 million and \$410 million, respectively. Because conversion was not accomplished, however, the payments will drop to \$200 million and \$250 million, respectively.

On the capital side, the Commonwealth will again borrow \$200 million for bridge projects and \$9.5 million for rail freight projects, which were originally proposed by the Governor to be part of the operating budget.

Property Tax Relief Fund

Homeowners will continue to receive nearly \$200 on average in broad-based property tax relief in 2010/11, which is based on approximately \$613.7 million in gaming revenue from casinos. This is equal to the amount dispersed for **property and wage tax relief** in 2009/10 and includes wage tax relief for Philadelphia.

The **Property Tax/Rent Rebate** program will provide approximately \$129.1 million in property tax and rent rebates for nearly 600,000 older Pennsylvanians. In addition, older Pennsylvanians who pay a significant portion of their income in property taxes or who live in high property tax areas will receive additional targeted property tax relief of approximately \$26.9 million in 2010/11.

The Secretary of the Budget certified \$772.5 million in total disbursements for property tax, wage tax, and property tax rent rebate relief in 2010/11. **This is \$22.6 million more than the amount disbursed in 2009/10.**