

2012/2013
BUDGET BRIEFING
HOUSE APPROPRIATIONS COMMITTEE (D)
 Report on Key Issues
 HOUSE APPROPRIATIONS COMMITTEE (D)

JOE MARKOSEK, DEMOCRATIC CHAIRMAN



UPDATED: 2012/13 Budget At-A-Glance

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In the last two days of the fiscal year, House members passed the numerous bills that that make up the state budget package to provide \$27.656 billion in state funds to run state government through June 30, 2013.

Sadly, this budget shortchanges most Pennsylvanians. As I told my colleagues during the House debate, “My advice to Pennsylvanians counting on this budget, don't get old, don't get sick, don't try to educate kids, don't be unlucky enough to be disabled, don't try to find a job, don't try to catch a bus, and don't try to cross a bridge.”

After closed door meetings with Gov. Corbett, Republicans introduced several last minute bills and changes to the budget that had to be voted on without any public vetting. This document provides a quick review of the highlights and lowlights in the 2012/13 state budget. The House Appropriations Committee (D) will continue to review provisions of the budget and post more information online (www.hacd.net) over the next couple of weeks. (See attached one-page “Winners and Losers” list which is also available online at www.hacd.net).

General Appropriations

Q. What is the total spending contained in SB 1466?

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A. SB 1466 (PN 2335) appropriates **\$27.656 billion** in state General Fund expenditures. This represents a \$370 million increase over the 2011/12 General Fund budget and approximately \$500 million more than Gov. Corbett proposed in February. The General Appropriations bill also contains appropriations for several other special funds, such as the Motor License Fund.

Q. What are the tax increases associated with the budget package?

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A. While there are no state tax increases required to pay for the level of spending in SB 1466 at the state level, based on experiences from the current fiscal year, the continued state funding cuts will force local and school tax increases across the state.

The Tax Code bill does not raise state taxes but rather gives businesses tax breaks through tax credits and favorable formulas. House Bill 761

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allows for a 100 percent sales factor apportionment for the calculation of Pennsylvania business income for corporate net income tax liability. This benefits Pennsylvania-based corporations that have proportionally more property and employees than sales within the state. This tax break is estimated to cost approximately \$12 million in the 2012/13 fiscal year and \$38 million in the 2013/14 fiscal year.

By creating new tax credits, the amount of revenue available to fund necessary programs is reduced, while the taxes paid by a limited number of businesses are reduced. The following newly-created tax credits are a form of spending through the Tax Code:

- **Resource Manufacturing Tax Credit** (related to luring **Royal Dutch Shell** corp. to build a “cracker plant” in western Pennsylvania) — Qualifying businesses that purchase ethane to convert into ethylene are eligible for a credit of \$0.05 per gallon of ethane purchased. There is no annual or cumulative cap on the credit, which is available for 26 years between 2017 and 2042. Gov. Corbett’s original tax credit proposal was capped at \$66 million per year, or \$1.7 billion over 26 years. This credit can be sold or transferred if the qualifying company is not able to use it.
- **Community-Based Services Tax Credit** — A business or individual can claim a credit against donations of cash, personal property or services to a nonprofit provider of community-based services, which must at least include services to individuals with intellectual disabilities or mental illness. This credit has an annual cap of \$3 million.
- **Historic Preservation Incentive Tax Credit** — A qualified taxpayer may claim a tax credit against expenses associated with the rehabilitation of a historic structure. The annual cap is \$3 million.
- **Educational Opportunity Scholarship Tax Credit** (commonly called “**Vouchers-Lite**”) — Allows qualified taxpayers to claim a credit against contributions to scholarship organizations. The annual cap on the credit is \$50 million. (*see additional information on page3*)
- **Educational Improvement Tax Credit** — This is an existing program for tax credits for businesses that donate funding to schools. The 2012/13 budget increases the annual cap from \$75 million to \$100 million.

Q. Are there any other business tax cuts in this budget?

A. There are nearly \$300 million in business tax cuts built into this budget because the Capital Stock and Franchise Tax will continue to phase down, which benefits corporations by approximately \$295 million for the 2012/13 fiscal year. Additionally, the FY 2011/12 year-end balance will be affected by \$325 to \$375 million in tax cuts corporations received through Gov. Corbett’s allowance of 100 percent bonus depreciation.

Q. Are there any tax changes in the fiscal code?

A. The fiscal code contains a \$10 million augmentation for the Department of Revenue to enhance revenue collections and enforcement efforts. This is expected to net \$100 million in increased revenue from delinquent collections that would have otherwise remained uncollectable.

The fiscal code also allows for benefits-based procurements. The Department of Revenue would be allowed to enter into contracts that pay based on contractor performance.

Education

Q. How does the budget fund K-12 classroom education?

A. K-12 classroom funding as compared to current year is flat-funded. However, there is \$49 million added to the Basic Education Funding appropriation to provide supplemental financial aid to financially distressed school districts (more information below). Relative to pre-Corbett K-12 classroom spending, the proposed budget maintains the roughly \$1 billion in cuts to classroom funding implemented in the 2011/12 Republican budget.

Q. Does the budget include money for distressed school districts?

A. The budget includes \$49 million added to the Basic Education Funding appropriation. Of this amount, \$39 million will provide supplemental aid to 16 financially distressed school districts. The remaining \$10 million is expected to be distributed to qualifying school districts through the Financial Recovery Transitional Loan Program created in House Bill 1307. In addition, \$14 million is made available to the Chester-Upland School District for statutory, or accounts payable, obligations related to the 2011/12 fiscal year. Additionally, \$2.5 million is made available to the Duquesne School District as a basic education funding enhancement, and will for two years, also receive \$500 for transitional services related to students in 7th, 8th, and 9th grades reassigned to neighboring school districts at a cost of approximately \$68,500 per year.

Q. Does the budget continue to include money for the Educational Improvement Tax Credit (EITC)?

A. Yes, funding for the 11-year-old EITC program was increased by \$25 million, to \$100 million and authorizes the award of tax credits to businesses that make contributions to scholarship organizations and educational improvement organizations, and pre-kindergarten scholarship organizations. The tax credit makes available \$60 million for private scholarships, \$30 million for public education improvement programs, and \$10 million for pre-kindergarten scholarships.

Q. Does the budget include money for school vouchers?

A. The budget accommodates a newly created tax credit program, the Educational Opportunity Scholarship Tax Credit program, commonly known as “Vouchers-Lite.” The tax credit program makes available \$50 million in tax credits to businesses who contribute to scholarship organizations for the purposes of providing school vouchers to students in low-achieving public schools. The program provides — on a first come, first served basis, who meet income guidelines — a \$8,500 voucher to students without disabilities and a \$15,000 voucher to students with disabilities. Beginning in 2013/14, transportation costs for students receiving scholarships will be covered at the cost of approximately \$385 per student. Preference is provided to students awarded a voucher in the previous school year and to students who’s household income is less than 185 percent of federal poverty levels, or approximately \$42,600 for a family of four. The qualifying household income ceiling, with the applicable income allowance, is \$72,000 in 2012/13; \$90,000 in 2013/14; and annually adjusted by CPI-U (Consumer Price Index-Urban) thereafter.

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Q. Is there a moratorium on school construction projects (PlanCon)?

A. Funding for PlanCon is flat-funded at \$296 million. This appropriation provides statutorily mandated state reimbursement to school districts for a portion of capital expenditures on school construction projects. This appropriation also provides reimbursements to charter schools for the cost to lease facilities. The current version of the Education Code Bill (HB 1901) includes a moratorium on any new school construction applications received after Oct. 1, 2012. Existing projects will not be affected.

NEW

Q. Does the budget include money for teacher evaluations?

A. The budget includes \$900,000 in state funds and \$2.8 million in federal funds for teacher evaluations. State funding is made available with existing funds through the Teacher Professional Development appropriation and through the federal Race to the Top grant award for the ongoing pilot program.

Q. What happened in higher education funding in the final budget?

A. For institutions of higher education, the 2012/13 budget provides flat funding compared to 2011/12. However, these funding levels are significantly lower than 2010/11, because of the major cuts imposed in the Republican budget passed last June.

	2010/11	2011/12	2012/13	12/13 Less 11/12	12/13 Less 10/11	Two Year % Cut
Community Colleges	235,741	212,167	212,167	0	(23,574)	-10%
<i>State</i>	214,217	212,167	212,167			
<i>Federal</i>	21,524	0	0			
State System of Higher Education	503,355	412,751	412,751	0	(90,604)	-18%
<i>State</i>	465,197	412,751	412,751			
<i>Federal</i>	38,158	0	0			
Penn State University**	281,244	227,694	227,694	0	(53,550)	-19%
<i>State</i>	265,453	227,694	227,694			
<i>Federal</i>	15,791	0	0			
University of Pittsburgh	167,995	136,076	136,076	0	(31,919)	-19%
<i>State</i>	160,490	136,076	136,076			
<i>Federal</i>	7,505	0	0			
Temple University	172,737	139,917	139,917	0	(32,820)	-19%
<i>State</i>	164,974	139,917	139,917			
<i>Federal</i>	7,763	0	0			
Lincoln University	13,782	11,163	11,163	0	(2,619)	-19%
<i>State</i>	13,623	11,163	11,163			
<i>Federal</i>	159	0	0			
Thaddeus Stevens	10,876	10,332	10,332	0	(544)	-5%
<i>State</i>	8,550	10,332	10,332			
<i>Federal</i>	2,326	0	0			

** Penn State funding does not include agricultural research and agriculture extension, now funded through a transfer under the Department of Agriculture.

Q. What will happen to the PHEAA grant program?

A. PHEAA grants received \$344.88 million in the final 2012/13 budget, a reduction of \$36 million in its state appropriation. **However, several factors have combined to make the net impact to the state grant program essentially stable.**

Approximately \$10 million of the state grant appropriation was frozen in 2011/12, but not lapsed, which makes the monies available to students in 2012/13. Increased carryover from prior years helped PHEAA offset the impact of the freeze during the 2011/12 fiscal year. Furthermore, PHEAA has committed to increase its contribution of business earnings for 2012/13 by another \$25 million on top of the \$50 million it already is contributing to make up for the reduction in the appropriation. Therefore, the PHEAA state grants for college students should be relatively stable for the next fiscal year.

Q. How does the budget impact Early Childhood Education programs?

A. SB 1466 provides \$100 million for the Accountability Block Grant (ABG) under the Department of Education (PDE). This represents level funding with that spent by schools during 2011/12. However, this represents a cut of \$154.526 million, or 60.7 percent, when compared with the funding available for school districts to spend before Gov. Corbett took office. In most school districts, ABG funds are used for their youngest students for Pre-K programs, full-day kindergarten and class size reduction.

Despite his campaign commitment to fund early childhood education, Gov. Corbett completely eliminated this funding in his February proposal.

Q. How much funding is available for Pre-K Counts?

A. SB 1466 funds Pre-K Counts at \$82.784 million. This represents level funding with 2011/12; however, compared with 2010/11, Pre-K Counts is cut \$836,000, or one percent. Gov. Corbett proposed funding the program at \$78.645 million.

Q. How much is available for Head Start?

A. SB 1466 funds Head Start Supplemental Assistance in PDE at \$37.278 million. This represents level funding with 2011/12; however, compared with 2010/11, Head Start Supplemental Assistance has been cut \$377,000, or one percent. Gov. Corbett proposed funding the program at \$35.414 million.

DPW - HUMAN SERVICES

Q. What happened to Gov. Corbett's proposal to consolidate funding for county human service programs into a single Human Services Development Fund Block Grant that cut county grants by 20 percent, or \$168.4 million?

A. The proposal to consolidate funding was rejected, but the funding for the counties is cut by 10 percent, or \$84.2 million. However, the General Assembly added a new Article XIV-B to the Public Welfare Code which creates the Human Services Block Grant Pilot Program (HSBG) for up to 20 counties.

County human service programs will continue to be funded through the existing categorical appropriations for Mental Health Services, Intellectual Disabilities Community Base Program, Behavioral

UPDATED

Health Services, Homeless Assistance, Child Welfare (for special county grants), Medical Assistance Outpatient (Act 152 drug and alcohol program) and the existing Human Services Development Fund.

When reviewing the [HACD spreadsheet](#), please note that the \$744 million reduction in the appropriation for the Human Service Development Fund reflects the fact that these monies were put back with their original appropriations listed above, and the existing appropriation will continue as a small flexible grant to counties.

For each county requesting to participate in the HSGB pilot program, the Department of Public Welfare (DPW) may distribute its share of the categorical human service appropriations in the form of a block grant. Spending flexibility for the counties is phased-in over five years, with each county required to spend at least 80 percent of its categorical allocations in 2012/13 (allowing up to 20 percent of funds to be shifted to other human services as the county deems appropriate), 75 percent in 2012/13, 50 percent in 2015/16, and 25 percent in 2016/17. Counties will have no minimum spending requirement in 2017/18, resulting in full flexibility in the use of block grant funds.

Q. How much does the Republican budget cut child care program funding that parents use so they can keep their jobs?

A. SB 1466 cuts **child care programs** under the Department of Public Welfare (DPW) by \$20.6 million, or 6.5 percent, compared with revised 2011/12 funding. These cuts represent changes in provider billings, new reporting requirements for clients claiming self-employment and a move to six-month redeterminations of eligibility. In addition, the Republican budget cuts \$4 million without specificity as to what component of the program may be affected. These programs provide child care support for working families and research-based early childhood care initiatives, such as the nationally recognized Keystone Stars program.

Despite a campaign promise to protect early childhood programs, the Republican 2012/13 budget represents a \$63.2 million, or 17.5 percent, cut to child care programs since Gov. Corbett took office.

Q. What happened to Gov. Corbett's recommendation to refuse funding for an initiative that would address the waiting list for persons with intellectual disabilities?

A. SB 1466 added \$17.8 million in state funds to provide home and community-based services for 700 special education graduates and 430 individuals with aging caregivers who are on the county emergency waiting list. This is reflected in DPW's budget under the Intellectual Disabilities - Community Waiver Program appropriation.

Q. What happened to Gov. Corbett's proposal to institute "high cost case reviews" to cut spending for the various home and community-based waiver programs that serve seniors and people with disabilities?

A. House Republicans **supported "high cost case reviews" by cutting the following:**

- \$2.7 million in state funds cut from the three waivers that serve individuals with severe physical disabilities. This is reflected in the appropriation for DPW under the Services to Persons with Disabilities appropriation.
- \$2.1 million in state funds cut from the Attendant Care appropriation, which funds two programs that serve mentally alert adults who have a physical disability.

- \$3.2 million in state funds cut from the Aging Waiver that serves seniors. This is reflected in the DPW appropriation under Home and Community Based Services.
- \$2 million in state funds cut from the two waiver programs that serve individuals with intellectual disabilities — initially Gov. Corbett requested a \$17 million cut, but this was revised in May as part of the Spring Update for the Department of Public Welfare. This is reflected in DPW’s budget under the Intellectual Disabilities - Community Waiver Program appropriation.

DPW - GENERAL ASSISTANCE

Q. What happened to the General Assistance cash benefit program designed to help some of our most needy residents, largely those unable to work due to a temporary disability?

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A. House and Senate Republicans accepted Gov. Corbett’s plan to eliminate \$150 million in funding and end the General Assistance cash benefit program which dates back to the Great Depression. This program provided roughly \$200 per month to eligible residents including: childless adults with a permanent or temporary disability; children under age 18 under the care of an unrelated adult; individuals age 18-20 attending a secondary school; individuals in a drug and alcohol treatment program and victims of domestic violence. Language in the Public Welfare Code ends the program on Aug.1, 2012.

Q. What happened to Gov. Corbett’s proposal to restrict Medical Assistance (MA) eligibility for the General Assistance population?

UPDATED

A. House Republicans supported changing the criteria used to determine eligibility for the two groups of **chronically ill adults** — the “categorically needy” and the “medically needy” — that qualify for Medical Assistance through the state-funded General Assistance program. The state GA program provides health care to approximately 108,000 uninsured adults. The Republican changes are expected to end coverage for 35,000 adults and reduce state spending by \$170 million as Gov. Corbett proposed. The cuts will be reflected in DPW’s budget under MA-Outpatient, MA-Inpatient and MA-Capitation.

For “categorically needy” adults, the vast majority of whom have a temporary disability that qualifies them for MA benefits, the Department of Public Welfare will tighten its standards and process used to determine whether 88,000 adults have a qualifying temporary disability that allows them to receive MA benefits.

For “medically needy” adults, many of whom qualified for coverage because of their high medical expenses, the Public Welfare Code was amended to require approximately 10,000 custodial parents (age 21 through 58) with dependent children to work at least 100 hours per month earning at least the minimum wage in order to receive Medical Assistance. Previously, this work requirement only applied to 3,800 non-custodial parents, age 21 through 58.

DPW - MEDICAL ASSISTANCE

Q. What happened to Governor Corbett’s proposed 4 percent cut in hospital rates?

A. House members rejected Gov. Corbett’s proposed cut in Medical Assistance (MA) rates paid to hospitals, adding \$12.5 million in state funds to restore the funding eliminated by Gov. Corbett. **HOWEVER, the rate restoration was offset by a different reduction in hospital reimbursements,**

resulting in a net loss in hospital payments. Both changes are reflected in DPW's budget under the MA-Inpatient appropriation.

Q. What happened to hospital payments for healthy newborn baby care?

A. House members added \$5.2 million in state funds to continue hospital payments for care of healthy newborns, rejecting the Act 22 regulation implemented by the Department of Public Welfare which, effective May 1, eliminated Medical Assistance (MA) reimbursements to hospitals for nursery care provided to healthy newborn babies. This is reflected in DPW's budget under the MA-Inpatient appropriation, with the implementing language appearing in the Fiscal Code.

Q. What happened to Gov. Corbett's proposed 10 percent cut in hospital supplemental payments?

A. House members rejected the proposed cut and maintained funding at the 2011/12 payment level for Trauma Centers, Burn Centers, and Obstetric/Neonatal Services. Funding for Critical Access Hospitals increased by \$500,000 above the 2010/11 payment level.

Q. What happened to Governor Corbett's proposal not to fund a rate increase for managed care plans?

A. Republicans supported Gov. Corbett's request and did not provide additional funds for managed care rates in the Medical Assistance Capitation appropriation. However, the actual rates paid to managed care plans will ultimately depend upon the recommendation of the actuary responsible for certifying that the commonwealth pays actuarially sound rates. This is reflected in DPW's budget under the MA-Capitation appropriation.

Q. What happened to Gov. Corbett's proposed 4 percent cut in nursing facility rates?

A. Republicans rejected the proposed cut in Medical Assistance rates paid to nursing facilities. Instead, nursing facility payments will be maintained at the 2011/12 level. This is reflected in DPW's budget under the appropriation for MA-Long Term Care.

TRANSFERS AND OTHER FUNDING GIMMICKS

Q. What happened to Gov. Corbett's proposal to eliminate health research funding (CURE) under the Tobacco Settlement Fund and redirect the money to the Medical Assistance Long Term Care program to help pay for nursing facility care?

A. The General Assembly rejected the proposal to eliminate the entire health research allocation amount (\$60 million) from the Tobacco Settlement Fund. However, through an amendment to the Fiscal Code, it redirected \$17 million of the funding (sometimes referred to as "non-formula" funding) to the MA Long Term Care program. The remaining \$44 million of the 2012/13 allocation will be used to fund grants under the CURE health research program.

Q. What happened to Gov. Corbett's proposal to use at total of \$250 million (a \$71.6 million increase) of Lottery Fund revenue to offset the General Fund cost for Medical Assistance Long Term Care?

A. The final budget includes \$309.081 million from the Lottery Fund for MA Long Term Care; \$59 million more than Gov. Corbett proposed. This appropriation is in the Lottery Fund section of the General Appropriation Act (SB 1466).

Q. How does the budget address Gov. Corbett's proposal to transfer \$72.3 million from the Race Horse Development Fund to fund agricultural activities?

A. The final budget rejected Gov. Corbett's proposal to take \$72.3 million from the Race Horse Development Fund. However, the Republican budget does transfer \$5 million from the Race Horse Development Fund to the State Farm Show Products Fund. Of this \$5 million, \$2 million is dedicated to Payments for County Fairs.

Q. What happens to the Cigarette Tax transfer and the Growing Greener Bond Fund transfer for the Agricultural Conservation Easement Purchase Fund in this budget?

A. The final budget rejects Gov. Corbett's proposal to transfer \$20.485 million from the Growing Greener Bond Fund for the Agricultural Conservation Easement Purchase Fund. Instead, \$20.485 million from Cigarette Tax revenue will be transferred to the Agricultural Conservation Easement Purchase Fund, maintaining the status quo.

Q. How does this budget address the State Police trooper shortage?

A. The Fiscal Code passed today includes language that requires the State Police to use General Government Operations funds for a cadet class of 100 cadets for 2012/13. However, recent projections are that the State Police could face a shortage of anywhere from 435 to 1,000 troopers in the near future. According to the State Police, they are looking at the possibility of closing barracks. Clearly additional cadet classes are needed now to cover this shortfall.

Q. What happens with the Keystone Fund in the final budget?

A. The final budget rejects Gov. Corbett's plan and maintains funding for Key '93 for the 2012/13 fiscal year. This is an important victory for environmental conservation in Pennsylvania.

Gov. Corbett proposed redirecting the share of the Keystone Fund that went to conservation projects and deferred maintenance for the State System of Higher Education, an amount constituting 83 percent, or \$38.6 million of the Fund's resources, to the General Fund. The Senate proposal only used half of the funds that Governor Corbett wanted to transfer, while the House of Representatives adopted an amendment that eliminated the transfer altogether.

Q. What happened to the Liberty Financing Authority?

A. Gov. Corbett's Liberty Financing Authority, and its predecessor the Liberty Loan Fund, are not included in the FY 2012/13 budget.

OTHER ISSUES AND AGENCY CONSOLIDATIONS

Q. What happened to the Capital Budget bill?

A. The constitutionally required Capital Budget bill was not passed with the rest of the budget package for the second consecutive year. The Capital Budget is important because it funds projects that are already underway and providing jobs to Pennsylvania workers.

Q. How did a moratorium on natural gas drilling get into the budget package?

A. Although the moratorium language has nothing to do with the budget, Republican leaders slipped language into the state fiscal code budget at the last minute to place a moratorium on natural gas drilling in Bucks and Montgomery counties.

Q. What does the 2012/13 budget do to assist distressed municipalities across the state?

A. The budget package provides an additional \$11.2 million for financially distressed municipalities, bringing the total annual Act 47 funding commitment up to \$12.1 million, from \$925,000 in 2011/12. This increase is driven by the need to bolster Act 47's revolving aid fund, while at the same time, recognizing the reality that more local communities are likely to face financial insolvency in the upcoming year. There are currently 21 local governments that have a distress determination from the Department of Community and Economic Development (DCED) under Act 47. These municipalities receive a combination of grants and no-interest loans as well as technical assistance from DCED staff and recovery plan coordinators.

Q. What happened to Gov. Corbett's proposal to merge the Department of Banking and the Pennsylvania Security Commission?

A. Legislators approved the proposal, **enacting legislation to create a new agency** known as the Department of Banking and Securities. This is reflected in the Banking Code, as amended by HB 2438.

Q. Do the Health Care Cost Containment Council and Patient Safety Authority remain autonomous entities as established under current law?

A. Yes. The budget package goes against Gov. Corbett's wishes and ensures that these agencies remain independent so they can complete their important work without being compromised by the whims of agencies under the governor's jurisdiction. Despite the fact that both were created as independent entities under statute, Gov. Corbett sought to move the Health Care Cost Containment Council (HC4) and Patient Safety Authority (PSA) under the purview of the Department of Health. HC4 is funded with General Funds and PSA is funded under the Patient Safety Trust Fund.