



**House Committee on Appropriations (D)**

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## Overview

### Commonwealth Checkbook II

The Commonwealth 2009/10 operating budget contains total state and federal appropriations of approximately \$52.7 billion, an increase of \$2.7 billion or 5.3% over the revised 2008/09 budget of \$50.1 billion. This includes the state General Fund, federal funds, the Motor License Fund, and other special funds such as the Lottery Fund and Tobacco Settlement Fund. State revenues declined by \$1.9 billion or about seven percent and federal funds increased by almost \$5 billion or 28 percent. The federal increase is due in part to federal stimulus funds provided for under the American Recovery and Reinvestment Act (ARRA) of 2009. In 2008/09, **state funds made up 54 percent of total state and federal funds compared with 48 percent in the budget year 2009/10.**

The General Fund is the largest portion of state and federal spending and is the fund over which policymakers have the most influence on expenditures. The 2008/09 fiscal year ended with a General Fund deficit of approximately \$2 billion, largely a result of a shortfall in anticipated state revenue deposits worth \$3.25 billion that was offset by spending cuts. Revenue actually declined by 8.6%.

Without additional funds, deposits for 2009/10 would remain static. Policymakers had to decide how to close a revenue gap worth more than \$6 billion – a \$3.2 billion deficit for 2008/09 plus a reduced revenue base for 2009/10 worth about the same amount. Legislators were left to find ways to close the gap for both years through the use of significant cuts, fund transfers, small tax increases, and federal stimulus funds.

### 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 2009/10 fiscal year began with a deficit of approximately \$2 billion and an official revenue estimate of \$25.561 billion. In order to maintain spending at approximately \$500 million less than the previous year, additional revenues worth \$2.7 billion were needed to balance the General Fund budget:

- \$670.5 million in recurring revenue.
- \$2 billion in non-recurring revenue.

As a nearby table shows in detail, the General Assembly passed three bills that contained revenue generating measures for the General Fund: HB1531, the Tax Code Bill; HB1614, the Fiscal Code Bill; and HB 1416, the General Appropriations Act.

The **Tax Code bill** (House Bill 1531) increased taxes by \$116.5 million consisting of a cigarette tax increase of 25 cents per pack and an equivalent new tax on small cigars. The Tax Code bill also reduced the tax burden by \$73.8 million for business related taxes. Additionally, it contained fund transfers, a suspension of the Capital Stock and Franchise Tax phaseout, and reductions to tax credits which contribute another \$584 million in **recurring** revenues.

**Non-recurring** revenues provided for in the Tax Code bill consist of changes to sales tax payment schedules, transfers to the General Fund from other funds, and the creation of a tax amnesty program, all which generate a total of \$1.1 billion.

The **Fiscal Code bill** (House Bill 1614) includes transfers to the General Fund of \$44 million; that will **recur** next fiscal year 2010/11. Increases in **non-recurring** revenues that consist of leasing state forest land and transfers to the General Fund to be used in the budget year are worth \$722.3 million.

The **General Appropriations bill** (House Bill 1416) includes almost \$177 million in **non-recurring** transfers to the General Fund.

Other income needed to balance the budget is expected to be generated from the establishment of table games in licensed casinos. The legislation authorizing table games revenue of approximately \$200 million is still under consideration.

<b>TOTAL REVENUE BY ACT</b>	<b>2009/10</b>
Tax Code (HB1513)	1,735,836
Fiscal Code (HB1614)	766,345
General Appropriations (HB1416)	176,633
<b>TOTAL</b>	<b>2,678,814</b>

GENERAL FUND REVENUE -- RECURRING vs. ONE-TIME		(\$s in 000s)
<b>RECURRING REVENUE</b>		<b>2009/10</b>
<b>Tax Code: Rate Increases</b>		
Small Cigars (8 cents per stick)		16,400
Cigarette Tax (25 cents per pack, or 8 cents per stick)		100,100
<b>Subtotal Tax Increases</b>		<b>116,500</b>
<b>Tax Code: Reductions</b>		
CNI: Net Operating Loss Deduction/Increased weight for Sales Factor		(73,200)
Sales and Use Tax: Helicopter Exemption		(100)
CSFT: Fixed Formula Deduction Increased from \$150k to \$160k		(500)
<b>Subtotal Tax Reductions</b>		<b>(73,800)</b>
<b>Tax Code: Other</b>		
CSFT Freeze at 2008 rate of 2.89 mills		373,900
Tax Credit Suspensions		39,000
Redirect Cigarette Tax (HCPRA to General Fund)		170,900
<b>Subtotal Other Tax Changes</b>		<b>583,800</b>
<b>Fiscal Code: Redirects surcharges on moving vehicle violations from the MCARE Fund to the General Fund for 2009/10 and 2010/11.</b>		
		44,000
Subtotal Tax Code Recurring Revenue		626,500
Subtotal Fiscal Code Recurring Revenue		44,000
<b>TOTAL RECURRING REVENUE</b>		<b>670,500</b>
<b>NON-RECURRING REVENUE (one-time)</b>		<b>2009/10</b>
<b>Tax Code: Technical Changes and Transfers</b>		
Sales Tax - Payment Change to Semi-Monthly Schedule		211,400
PIT Standardization of Payments W/Fed Standards (effective 2010/11)		-
Tax Amnesty Program		190,000
Draw Down HCPRA Balance		707,936
<b>Subtotal Technical Changes and Transfers</b>		<b>1,109,336</b>
<b>Fiscal Code:</b>		
Transfer from Rainy Day Fund (\$362.6 million is assumed to be used in 2010/11.)		392,371
Lease of State Forest Land		60,000
Health Care Cost Containment Council lapse		2,300
Transfer from Tobacco Settlement Fund		167,674
Transfer from MCARE (leaves \$50 million balance)		100,000
<b>Subtotal Fiscal Code Changes</b>		<b>722,345</b>
<b>General Appropriations Act:</b>		
Transfer from Keystone Recreation & Conservation Fund		18,349
Transfer from Higher Education Assistance Fund		11,284
Transfer from Dog Law Account		4,000
Transfer from Oil and Gas Lease Fund		143,000
<b>Subtotal General Appropriations Act</b>		<b>176,633</b>
<b>TOTAL NON-RECURRING REVENUE</b>		<b>2,008,314</b>
<b>TOTAL REVENUE</b>		<b>2,678,814</b>

**New General Fund Revenue: Source/Description**

<i>(\$s in thousands)</i>	
<b>Tax Reform Code (House Bill 1531)</b>	
<b><i>Sales and Use Tax</i></b>	
Exempts helicopters and helicopter parts and maintenance from the state sales and use tax.	<b>-100</b>
Accelerates the payment schedule for sales tax remittances.	<b>211,400</b>
<b><i>Personal Income Tax</i></b>	
Accelerates the payment schedule for personal income tax remittances. Takes effect in 2010/11.	-
<b><i>Check-offs</i></b>	
Extends the expiration date for check-offs on the tax return form for donations to the following: Wild Resource Conservation, Organ Donation Awareness, Military Families, and Juvenile Diabetes.	-
<b><i>Corporate Net Income Tax</i></b>	
Changes the Corporate Net Income Tax (CNIT) by (1) expanding the Net Operating Loss (NOL) carry-forward deduction; and (2) providing an increased advantage to multi-state corporations that have more property and payroll in Pennsylvania. Specifically, multi-state corporations apportion taxable income based on a weighted average of the portion of property, payroll, and sales located in PA compared with other states. HB 1531 increases the weight placed on the sales factor. Tax year 2009: the NOL cap is increased from 12.5% to 15% of taxable income (or \$3 million); the weight of the sales factor is increased from 70% to 83%. Tax year 2010: the NOL cap is increased from 15% to 20% (or \$3 million); the weight of the sales factor is increased to 90%.	<b>-73,200</b>
<b><i>Capital Stock and Franchise Tax</i></b>	
Increases the fixed formula deduction from the value of capital stock (the tax base) in the calculation of the Capital Stock and Franchise Tax (CSFT) which is advantageous to all taxpayers (changes from \$150,000 to \$160,000). More smaller business taxpayers would owe no tax as a result.	<b>-500</b>
Slows down the phase-out of the Capital Stock and Franchise Tax by maintaining the rate at 2.89 mills for the next two fiscal years (this was the rate in 2008). The CSFT will be completely phased out by 2014.	<b>373,900</b>
<b><i>Gross Receipts Tax</i></b>	
Imposes a Gross Receipts Tax of 59 mills on Managed Care Organizations that are parties to Medicaid managed care contracts with the Department of Public Welfare in order to draw down federal reimbursement dollars. Net proceeds are used as an offset to spending. See narrative under Department of Public Welfare.	-
<b><i>Tobacco Taxes</i></b>	
Increases the cigarette tax by 25 cents per pack (total tax will be \$1.60 per pack or 8 cents per stick).	<b>100,100</b>
Expands cigarette tax to include small cigars, which are defined as any roll for smoking that weighs no more than 4 pounds per thousand, where the wrapper is made of tobacco.	<b>16,400</b>
Re-directs to the General Fund the portion of the cigarette tax dedicated to the Health Care Provider Retention Account.	<b>170,900</b>
<b><i>Fund Transfers</i></b>	
Eliminates the Health Care Provider Retention Account and diverts the balance to the General Fund.	<b>707,936</b>

**2009/10 New General Fund Revenue: Source/Description**

<b>Tax Credits</b>	
Makes changes to the Educational Improvement Tax Credit program: Adds students with a disability and special education schools to those benefitting from the program; increases the maximum annual household income limit for student eligibility in 2011/2012 to \$60,000; increases the income allowance in 2011/2012 to \$12,000 and adds an annual CPI adjustment for both beginning in July, 2012; includes a multiplier to be applied to the annual household income for families with students with disabilities; expands the eligible pre-K program to allow programs that operate over the summer recess to qualify for the EITC program.	
Reduces the amount of tax credits awarded for the next 2 fiscal years. All programs affected and expected to be utilized in the next two years are as follows:	
Neighborhood Assistance Program, Employment Incentive Payments, Job Creation Tax Credit, Research & Development Tax Credit, Education Improvement Tax Credit, Film Production Tax Credit, Resource Enhancement and Protection Tax Credit, First Class Cities Economic Development District Tax Credit, Call Center Tax Credit.	
Contains a complete suspension for the next 2 fiscal years of the Alternative Energy Production Tax Credit Program, which has not begun yet.	<b>39,000</b>
<b>Tax Amnesty</b>	
Contains a tax amnesty program that will run from April 26 through June 18, 2010. This program will waive half the interest and all penalties on eligible taxes (includes all PA taxes administered by the Department of Revenue) that are delinquent as of June 30, 2009. This program also applies to unknown liabilities for five years prior to June 30, 2009.	<b>190,000</b>
<b>Total New Revenue Associated with Tax Code</b>	<b>1,735,836</b>
<b>Fiscal Code (House Bill 1614)</b>	
<b>Fund Transfers</b>	
Allows a transfer of \$2.3 million in unspent, uncommitted funds to be transferred from the Health Care Cost Containment Council to the General Fund.	<b>2,300</b>
Redirects Tobacco Settlement Fund monies to the General Fund and provides for transfers from the Health Endowment Account to the General Fund.	<b>167,674</b>
Allows for a transfer of \$755 million from the Rainy Day Fund to the General Fund and keeps any surplus from the 2009/10 fiscal year that would otherwise have been deposited in the Rainy Day Fund to the General Fund. It is assumed that \$362.63 million will be used in 2010/11.	<b>392,371</b>
Transfers all funds available in the Health Care Provider Retention Account (approximately \$708 million) to the General Fund. Provisions for this transfer also are contained in the Tax Code (see above).	-
Allows for a transfer of \$100 million from the Medical Care Availability Reduction of Error Fund to the General Fund, leaving a remaining balance of \$50 million.	<b>100,000</b>
Diverts surcharges on moving vehicle violations of the Vehicle Code from the MCARE Fund to the General Fund. This will be a recurring transfer.	<b>44,000</b>
<b>Marcellus Shale Leasing</b>	
In 2009/10, \$60 million shall be transferred from the Oil and Gas Lease Fund to the General Fund. On an annual basis, \$50 million of royalties deposited into the Fund will be transferred to the Department of Conservation and Natural Resources to be used in the same fashion as the Department currently uses money in the Fund, except that the Department will be required to give preference to the operation and maintenance of state parks and forests. The use of all other royalties deposited into the Fund will be subject to appropriation by the General Assembly.	<b>60,000</b>
<b>Total Revenue Associated with Fiscal Code</b>	<b>766,345</b>

## 2009/10 New General Fund Revenue: Source/Description

<b>General Appropriations Act (House Bill 1416)</b>	
<b><i>Fund Transfers</i></b>	
Allows for a transfer from the Higher Education Assistance Fund to the General Fund.	<b>11,284</b>
Allows for a transfer from the Keystone Recreation, Park and Conservation Fund in the amount of funding that is available to the Department of Education for local library rehabilitation and development, to the State System of Higher Education for deferred maintenance and to the Pennsylvania Historical and Museum Commission for historic site development.	<b>18,349</b>
Allows for a transfer from the Dog Law Restricted Revenue Account.	<b>4,000</b>
Transfers funds from the Oil and Gas Lease Fund.	<b>143,000</b>
<b>Total Fund Transfers Associated with the General Appropriations Act</b>	<b>176,633</b>
<b>Total Revenue</b>	<b>\$2,678,814</b>

Two of the fund transfers to the General Fund deserve further elaboration: the transfer from the MCARE surplus (\$100 million) and the transfer from the Health Care Provider Retention Account (\$707.9 million).

### **MCARE Fund**

Act 13 of 2002 created the **Medical Care Availability of Error (MCARE) Fund**. Since 2003, the MCARE Fund has received the following revenue sources: (1) assessments on health care providers; (2) transfers from the Health Care Provider Retention Account (HCPRA) to cover assessment abatements; (3) revenue related to surcharges on traffic moving violations; and (4) interest earnings on the MCARE Fund.

Provider assessments are the largest revenue source to the MCARE fund. Assessments are calculated based on a formula outlined in Act 13. Due to the nature of the formula, in years where claims are declining, providers pay more into the Fund than is required to cover claim payouts in the current year. The number of statewide medical malpractice claim payouts was 41 percent lower in 2007 than the base period of 2000 through 2002, before reforms were implemented. Therefore, the nature of this formula eventually resulted in lower assessments and a surplus in the MCARE fund.

The budget transfers \$100 million from the MCARE Fund surplus to the General Fund in 2009/10, which leaves approximately \$50 million in the Fund. In addition, the budget redirects \$44 million from surcharges on moving vehicle violations now deposited in the MCARE Fund to the General Fund.

### **Health Care Provider Retention Account**

The **Health Care Provider Retention Account (HCPRA)** was originally created under Act 44 of 2003. The purpose of the Account was to fund Medical Care Availability and Reduction of Error (MCARE) assessment abatements for participating health care providers as outlined in the legislation. Act 46 of 2003 raised the cigarette tax and directed the equivalent of 25 cents per pack to the Account in order to cover the costs of those abatements.



The 2009/10 budget transfers the balance (approximately \$708 million) of the HCPRA to the General Fund. In addition, the budget redirects the cigarette tax dedicated to HCPRA back into the General Fund.

### General Fund State Expenditures

The federal stimulus act (ARRA) provided fiscal relief to the states by increasing the federal Medicaid match (FMAP) for state Medicaid programs and by allocating Fiscal Stabilization Funds which states may use for education and other public safety services. Pennsylvania is using its Fiscal Stabilization Funds for Education, Corrections and Department of General Services. The additional ARRA FMAP is used to pay for Medical Assistance and other Medicaid-related programs in the Department of Public Welfare. Altogether, ARRA funds offset (or reduce) state spending by \$1.2 billion in 2008/09 and \$2.6 billion in 2009/10. The table below details the distribution of these ARRA funds by department.

If we count these ARRA funds, 2009/10 General Fund spending is \$27.8 billion (\$25.178 billion in state appropriations plus \$2.621 billion in ARRA appropriations), or 1.8%, lower than 2008/09. The 2009/10 spend assumes that almost \$730 million in state and ARRA funds for non-preferred appropriations will be enacted. However, **no non-preferred appropriations have gone to the Governor’s desk yet because of an incomplete revenue package**. If pending table game legislation is enacted, the revenue package should be complete.

Last year’s 2008/09 General Fund enacted budget was \$28.267 billion and was ultimately reduced to \$27.084 billion as a result of cuts worth more than \$470 million and net supplemental appropriations that reduced the enacted budget by more than \$712 million.

<b>ARRA Funds Used to Offset State Appropriations</b>		
(\$s in 000s)	<b>2008/09</b>	<b>2009/10</b>
DPW FMAP	1,157,261	1,699,795
Corrections		172,911
General Services		500
<b>Education – Total</b>	<b>62,852</b>	<b>747,883</b>
Basic Education		654,747
Higher Education	62,852	93,136
<b>Total</b>	<b>\$ 1,220,113</b>	<b>\$ 2,621,089</b>

Only a handful of agencies, boards or commissions received General Fund increases in state funds (see table on page 16). Only the following received increases in excess of \$6 million compared with the 2008/09 enacted budget adjusted for lapses and supplemental appropriations:

- Treasury (\$19.8 million), as a result of a \$26.4 million increase in General Obligation Debt Service;
- Department of Revenue (\$17 million) for to technology modernization;

- Corrections (\$6.8 million) due to constitutionally mandated medical care for inmates;
- Insurance (\$6.2 million), due primarily to a \$10.2 million increase in Children’s Health Insurance;
- PA Probation and Parole (\$6 million) due primarily to implementing provisions of the prison reform package passed in 2008/09.

When ARRA funds are included, the increases are still anemic.

**Combined state and ARRA funds translate to increases for:**

- The Department of Corrections worth \$179.7 million.
- The Department of Education, preferred appropriations worth \$104.5 million. An additional \$2.2 billion in **direct** aid to school districts is available under ARRA.

The Department of Public Welfare would have shown a relatively small increase had it not been for about \$285 million in funds that were shifted (rolled back) to 2008/09 in supplemental appropriations.

While spending increases are down for the Departments of Education and Public Welfare, these two agencies still represent the largest proportion of General Fund spending.

**Education**

The basic education subsidy for 2009/10 is more than \$5.526 billion, which is an increase of almost \$300 million or 5.7%. It is one of the few appropriations that reflect comparatively great news given the economic circumstances. The total subsidy payment consists of \$4.87 billion in state funds and \$654.7 million in federal stimulus funds.

Fiscal year 2008/09 was the first year of a new basic education subsidy formula, which is based on the findings and recommendations presented in the Costing-Out Study (Act 114 of 2006). This formula identified “adequate” and “equitable” spending for each Commonwealth school district student, then determined the state share of this funding. The goal was to phase-in this state share over a six year period. Funding for fiscal year 2009/10, year two of the phase-in, was calculated at \$418 million. Consequently, the subsidy increase of \$300 million is \$118 million short of this goal for 2009/10.

Except for some good news for certain higher education spending, other Education appropriations did not fare nearly as well and are discussed in further detail in the recent Budget Briefing: **2009/10 Budget: Education, October 9, 2009.**

Two education related issues of particular interest this year relate to the Scranton School for the Deaf and the Scotland School.

### **Scranton School for the Deaf**

The budget bill appropriates \$5.4 million in transition funding for the closure of the Scranton State School for the Deaf and its reincarnation as a satellite campus of the **Western Pennsylvania School of the Deaf** (WPSD). WPSD is one of four institutions that receive funding from the PA Chartered Schools for the Deaf and Blind line item. Under the transition plan, the \$5.4 million will be distributed in two components: a portion that “follows the student” and a portion that goes directly to WPSD. A total of \$3.3 million will follow the former students of the Scranton School to WPSD or any other chartered school for the deaf in which they enroll. The balance of \$2.1 million will be included in the base allocation that WPSD receives each year from its traditional appropriation. This amount will cover the additional costs incurred by running a satellite campus.

The Fiscal Code Bill includes transition language for a pool of professional and temporary employees of **Scranton School for the Deaf and Scotland School for Veterans Children**. It provides for retention of seniority rights, sick leave, and years of service. It also requires specifically designated school districts to interview and offer priority employment to the pool of professionals

### **Special Education**

The special education appropriation is flat-funded at \$1.026 billion. This line item provides for special needs students in school district classrooms. Increased support from the federal government under ARRA also will bring additional dollars to school districts to help educate these children.

### **Higher Education**

ARRA funds also are used to supplement higher education appropriations. Under the federal requirements, states are required to use the funds for public education. As a result, the General Assembly has proposed ARRA funding for public higher education which includes: state-related universities (non-preferred appropriations), Thaddeus Stevens College of Technology, Community Colleges and the State System of Higher Education. At this point, the only ARRA appropriations enacted are those for the Community Colleges, the State System and Thaddeus Stevens College of Technology. The General Assembly has not yet enacted the non-preferred appropriations. The nearby tables summarize the proposal described here for 2008/09 and 2009/10.

<b>2008/09 Higher Education: Effect of ARRA Funds</b>					
(\$s in 000s)	<b>2007/08 Actual</b>	<b>2008/09 Enacted</b>	<b>2008/09 After Freeze</b>	<b>2008/09 ARRA Supplement Approp</b>	<b>2008/09 Proposed Total</b>
Community Colleges	229,359	236,230	236,240	-	236,240
State System of Higher Education	504,240	519,236	497,168	27,068	524,236
Pennsylvania State University*	334,230	338,375	318,073	16,973	335,046
University of Pittsburgh*	168,169	170,734	160,490	8,644	169,134
Temple University*	172,917	175,504	164,974	8,930	173,904
Lincoln University*	13,786	14,493	13,623	830	14,453
Thaddeus Stevens College of Technology	10,930	10,750	10,293	407	10,700

\*2008/09 supplemental non-preferred appropriations are not yet enacted.

<b>2009/10 Higher Education: Effect of ARRA Funds</b>					
(\$s in 000s)	<b>2007/08 Actual</b>	<b>2008/09 Proposed Total</b>	<b>2009/10 State Approp</b>	<b>2009/10 ARRA Approp</b>	<b>2009/10 Proposed Total</b>
Community Colleges	229,359	236,240	214,217	21,524	235,741
State System of Higher Education	504,240	524,236	465,197	38,158	503,355
Pennsylvania State University*	334,230	335,046	318,072	15,791	333,863
University of Pittsburgh*	168,169	169,134	160,490	7,505	167,995
Temple University*	172,917	173,904	164,974	7,763	172,737
Lincoln University*	13,786	14,453	13,623	159	13,782
Thaddeus Stevens College of Technology	10,930	10,700	8,550	2,326	10,876

\*2009/10 non-preferred appropriations are not yet enacted.

## Department of Public Welfare

State General Fund appropriations for DPW total \$8.728 billion in 2009/10, a decrease of \$698.5 million from 2008/09. Three factors account for the decrease in DPW state appropriations: the enhanced ARRA FMAP; the rollback of Medical Assistance expenditures; and the additional state savings from a new Gross Receipts Tax on Medicaid managed care plans.

### Enhanced ARRA FMAP

Most of the decrease in DPW state appropriations can be attributed to the impact of the additional federal Medicaid reimbursement, also known as the enhanced **ARRA FMAP**, which Pennsylvania will receive during the federal stimulus period that began October 2008. Each additional dollar of federal Medicaid reimbursement that Pennsylvania receives under the higher ARRA FMAP allows DPW to make a concomitant reduction in its state appropriations that support Medicaid-related programs, namely the Medical Assistance program as well as the various community programs that serve individuals with disabilities (such as mental retardation, autism, and physical disabilities).

For the 2009/10 budget, Pennsylvania anticipates \$1.7 billion in ARRA FMAP (reflecting four quarters of federal stimulus), or approximately \$543 million more compared to \$1.16 billion in

ARRA FMAP for the 2008/09 budget (reflecting three quarters of federal stimulus). This increased ARRA FMAP allows DPW to shift more Medicaid expenditures to the federal government in the 2009/10 budget and thereby accounts for \$543 million of the decrease in DPW's 2009/10 state appropriations.

### **MA Expenditure Rollback**

A second factor affecting 2009/10 state General Fund appropriations is the rollback of approximately \$285 million of July 2009 Medical Assistance (MA) expenditures to the 2008/09 fiscal year. The rollback is a budgetary maneuver that simply alters the year in which the expenditures are booked. DPW will still pay MA providers for twelve months of claims during 2009/10; however, \$285 million will be paid with prior year funds as the result of a concomitant increase in supplemental appropriations for 2008/09. Specifically, 2009/10 expenditures for the following MA appropriations were shifted back to 2008/09: MA Outpatient (\$22.9 million); MA Inpatient (\$14.0 million); MA Capitation (\$173.4 million); and Long Term Care (\$74.8 million).

### **Managed Care Gross Receipts Tax**

Pennsylvania's 5.5% assessment on Medicaid managed care plans was terminated after September 30, 2009 due to changes in the federal Deficit Reduction Act of 2005. To replace the annual loss of revenue from the federal termination of Pennsylvania's assessment, Medicaid managed care plans are now subject to a 59 mill (or 5.9%) state Gross Receipts Tax beginning October 1, 2009.

The old assessment generated additional federal Medicaid matching funds which helped to pay for the Medical Assistance managed care program, saving the state approximately \$230 million during 2008/09 and \$70 million for the first quarter of 2009/10 (July 2009 through September 2009). The new Gross Receipts Tax is expected to generate additional federal Medicaid matching funds that will save the state \$316 million during 2009/10. Under both the old managed care assessment and the new managed care Gross Receipts Tax, the state savings are reflected via a reduction in the state appropriation for the MA Capitation line item which funds the Medical Assistance managed care program. For 2009/10, state savings are expected to total \$386 million (\$70 million from the old managed care assessment plus \$316 million from the new managed care Gross Receipts Tax), or approximately \$156 million more than the savings realized during 2008/09 from the managed care assessment. As a result of these additional savings, the 2009/10 state appropriation for MA Capitation is reduced \$156 million from 2008/09.

### **DPW Budget Highlights**

The 2009/10 budget funds the expansion of community programs for the elderly and disabled. Pennsylvania's elderly will benefit from increased funding in the MA Long Term Care line item to expand the community Waiver program (\$6.4 million state funds and \$18.7 million total funds) so that an additional 2,000 seniors can receive services in their homes and communities as an alternative to nursing home care. Pennsylvania's disabled citizens will benefit from significant funding increases to the following line items:

- \$7.8 million in state funds (\$22.7 million total funds) for Community Mental Retardation Waiver Programs to serve an additional 793 individuals;
- \$10.6 million in state funds (\$31.1 million total funds) for Autism Services to provide direct care to 500 adults with autism;
- \$8.4 million state funds (\$24.6 million total funds) for Services to Persons with Disabilities to expand community services for an additional 960 severely disabled individuals; and
- \$5 million state funds (\$11.5 million total funds) for Attendant Care to serve an additional 880 individuals with physical disabilities.

Pennsylvania's hospitals are budgeted to receive \$301 million (\$125.4 million state and \$175.6 million federal funds) in supplemental payments during 2009/10. The budget restores hospital payments that had been eliminated in Senate Bill 850, as indicated in the table below.

<b>2009/10 Hospital Supplemental Payments (\$ Millions)</b>		
<b><u>Line Item/Hospital Payment</u></b>	<b><u>State Funds</u></b>	<b><u>Total Funds</u></b>
MA Outpatient		
Outpatient Disproportionate Share (DSH) *	\$17.1	\$50.0
MA Inpatient		
Inpatient Disproportionate Share (DSH)	\$35.7	\$79.0
Medical Education *	\$21.9	\$64.0
Community Access *	\$24.0	\$49.3
Obstetric & Neonatal Services*	\$5.0	\$11.1
Hospital-Based Burn Centers *	\$5.1	\$11.4
Critical Access Hospitals *	\$4.9	\$10.7
Trauma Centers *	\$11.5	\$25.5
<b>TOTAL</b>	<b>\$125.4</b>	<b>\$300.9</b>
<i>* Restored payments not funded in Senate Bill 850.</i>		

The 2009/10 budget also addresses the needs of Pennsylvania's children and families. It preserves the funding level for Child Care Services that is necessary to receive federal ARRA funds. The state dollars will maintain the current program (approximately 60,000 slots). The additional ARRA funds will help reduce the large waiting list in the program (adding approximately 4,300 slots); enhance the Keystone STARS program; and start a pilot initiative to promote early learning for infants and toddlers. In addition, the budget includes \$1.048 billion for County Child Welfare services. This amount reflects the amount of funding included in the Needs-Based Budget requests approved by the Department of Public Welfare. The budget package does not address proposed legislative changes to child welfare services.

More detail on the 2009/10 DPW budget is provided in a separate DPW budget briefing as well as a series of budget briefings that cover specific program areas, including: medical assistance; mental health/mental retardation; and other disability programs (i.e., autism, attendant care, and services to people with disabilities).

## Children's Health Insurance

The budget maintains the current **Children's Health Insurance Program (CHIP)**, allowing children already receiving the insurance coverage to remain in the program. The funding level will cover the number of children enrolled in the program as of the end of summer and allows for some anticipated caseload growth. However, the creation of a waiting list may still be possible.

## Transportation

One issue not addressed in the budget is the need to replace the pending loss of transportation funding. **Act 44 of 2007** established, in part, payments from the Pennsylvania Turnpike Commission for transportation projects and allowed the Commission to place tolls on Interstate 80. The amount of payments is predicated on tolling Interstate 80. Because the Federal Highway Administration did not approve the Commonwealth's application for tolling I-80, the payment will drop from \$900 million this fiscal year to only \$450 million next fiscal year. Pursuant to Act 44, transit's portion drops from \$400 million to \$250 million, and the portion for bridges and highways drops from \$500 million to \$200 million. The Department of Transportation and the Turnpike Commission plan to resubmit the application.

This loss of funding is exacerbated by the potential loss of federal money. SAFETEA-LU—the 2005 federal transportation authorization law—expired September 30, 2009. Although extended by a continuing resolution for thirty days, Pennsylvania lost \$400 million in federal rescissions at the end of September due to the inadequacy of revenues to the federal Highway Trust Fund. Congress is facing a financial crisis with inadequate revenues from the federal excise tax on motor fuels (18.4¢ per gallon gasoline and 24.4¢ per gallon diesel fuel) that are deposited into the Fund.

In addition, funding from the federal stimulus bill—the American Recovery and Reinvestment Act (ARRA) of 2009—will run out over the next few years. ARRA provided \$1.026 billion to Pennsylvania for highway projects and \$263.4 million for transit.

Also of special interest, the **rail freight assistance program**, which helps connect businesses to existing rail lines to facilitate goods movement, was cut to \$8.55 million from \$9.1 million.

## Judicial Fees

Pennsylvania courts will receive almost \$277 million from the Commonwealth in 2009/10. This represents an overall cut of 9.9% compared to 2008/09. A recently enacted fee increase (Act 49/HB1607) provides an estimated \$14.7 million in additional revenue for the Judicial Computer System Augmentation Account restoring funding for the courts to within five percent (\$15.6 million) of last year's appropriation.

Specifically, Act 49 provides additional sources of funding for:

- the Judicial Computer System Augmentation Account (JCS), which will help to fund the Judiciary;
- the Access to Justice Account (ATJ), which will help provide funding for legal services; and

- the Criminal Justice Enhancement Account (CJEA), which funds the salaries of full-time county district attorneys across the Commonwealth.

<b>Act 49 of October 9, 2009 (House Bill 1607)</b>	<b>2009/10</b>	<b>2010/11</b>
<b>(\$s in 000s)</b>		
Judicial Computer System Augmentation Account	\$14,726	\$29,452
Access to Justice Account	\$1,437	\$2,873
Criminal Justice Enhancement Account	\$3,233	\$6,465

The existing \$10 surcharge on filing fees will be expanded to include filings from defendants who are granted entry into an Accelerated Rehabilitative Disposition Program (ARD). Of the \$10 collected, \$8 will be dedicated to the JCS account and \$2 will be dedicated to the ATJ account. In addition to the expansion of the existing surcharge on ARD defendants, Act 49 provides for a 25-month temporary increase in surcharges of \$11.25 for filing fees. The new increased surcharge will provide for \$10.25 to be deposited into the JCS account and \$1 to be deposited into the ATJ account.

Finally, Act 49 provides for the CJEA to collect revenue from a permanent surcharge of \$2.25 on filings.



**State General Fund Budget Comparison, By Agency (\$ Thousands)**

Agency	FY 2007-08	FY 2008-09	FY 2009-10	FY 2009-10 less FY 2008-09	
	Actual	Available *	Budget	\$ Change	% Change
Governor's Office	\$7,559	\$7,293	\$6,900	-\$393	-5.4%
Executive Offices	\$258,747	\$243,038	\$204,486	-\$38,552	-15.9%
Lieutenant Governor	\$1,523	\$1,428	\$1,075	-\$353	-24.7%
Attorney General	\$93,836	\$94,509	\$86,522	-\$7,987	-8.5%
Auditor General	\$54,018	\$54,520	\$48,303	-\$6,217	-11.4%
Treasury	\$923,352	\$955,348	\$975,153	\$19,805	2.1%
Aging	\$250	\$0	\$0	\$0	
Agriculture	\$81,206	\$76,085	\$67,830	-\$8,255	-10.8%
Community & Economic Development	\$611,010	\$567,519	\$264,848	-\$302,671	-53.3%
Conservation & Natural Resources	\$116,486	\$113,369	\$92,369	-\$21,000	-18.5%
Corrections **	\$1,600,181	\$1,605,505	\$1,612,329	\$6,824	0.4%
Education - Preferred Appropriations **	\$9,763,888	\$10,037,996	\$9,466,194	-\$571,802	-5.7%
Education - Nonpreferred Appropriations ** 1	\$780,293	\$728,020	\$695,731	-\$32,289	-4.4%
Environmental Protection	\$220,483	\$217,515	\$159,056	-\$58,459	-26.9%
General Services **	\$120,515	\$117,868	\$120,175	\$2,307	2.0%
Health (includes Nonpreferreds) 1/	\$297,847	\$272,938	\$239,999	-\$32,939	-12.1%
Insurance	\$101,290	\$117,432	\$123,635	\$6,203	5.3%
Labor & Industry (includes Nonpreferred) 1/	\$122,775	\$120,650	\$92,070	-\$28,580	-23.7%
Military and Veterans Affairs	\$135,804	\$127,000	\$111,276	-\$15,724	-12.4%
PA Higher Education Assistance Agency	\$451,968	\$472,873	\$455,170	-\$17,703	-3.7%
Public Welfare	\$9,467,212	\$9,426,357	\$8,727,833	-\$698,524	-7.4%
Revenue	\$187,838	\$181,509	\$198,602	\$17,093	9.4%
State	\$20,571	\$12,465	\$9,823	-\$2,642	-21.2%
State System Higher Education **	\$504,240	\$497,168	\$465,197	-\$31,971	-6.4%
Thaddeus Stevens College of Technology **	\$10,930	\$10,293	\$8,550	-\$1,743	-16.9%
Transportation	\$13,862	\$11,720	\$11,013	-\$707	-6.0%
State Police	\$180,882	\$182,305	\$182,664	\$359	0.2%
Civil Service Commission	\$1	\$1	\$1	\$0	0.0%
Emergency Management & Homeland Security	\$30,776	\$22,142	\$15,494	-\$6,648	-30.0%
Fish & Boat Commission	\$16	\$17	\$17	\$0	0.0%
Historical & Museum Commission	\$33,865	\$31,895	\$22,719	-\$9,176	-28.8%
State Environmental Hearing Board	\$1,976	\$1,710	\$1,708	-\$2	-0.1%
PA Probation & Parole Board	\$109,382	\$111,605	\$117,664	\$6,059	5.4%
PA Public Television Network	\$13,498	\$11,261	\$0	-\$11,261	-100.0%
Securities Commission	\$2,354	\$1,782	\$1,400	-\$382	-21.4%
State Tax Equalization Board	\$1,519	\$1,207	\$1,159	-\$48	-4.0%
State Employees' Retirement System	\$4	\$4	\$4	\$0	0.0%
PA Housing Finance Agency	\$12,250	\$12,234	\$11,000	-\$1,234	-10.1%
Health Care Cost Containment Council	\$4,412	\$3,753	\$2,844	-\$909	-24.2%
State Ethics Commission	\$2,096	\$2,195	\$1,980	-\$215	-9.8%
Legislature	\$327,621	\$324,685	\$299,026	-\$25,659	-7.9%
<u>Courts</u>	<u>\$299,657</u>	<u>\$307,141</u>	<u>\$276,860</u>	<u>-\$30,281</u>	<u>-9.9%</u>
<b>TOTAL GENERAL FUND</b>	<b>\$26,967,993</b>	<b>\$27,084,355</b>	<b>\$25,178,679</b>	<b>-\$1,905,676</b>	<b>-7.0%</b>
Preferred Appropriations - State Subtotal	\$26,168,699	\$26,339,473	\$24,469,078	-\$1,870,395	-7.1%
Nonpreferred Appropriations - State Subtotal	\$787,204	\$734,278	\$698,701	-\$35,577	-4.8%
Executive Authorizations - Subtotal	\$12,090	\$10,604	\$10,900	\$296	2.8%

1/ These agencies include nonpreferred appropriations. Please note that nonpreferreds for FY 2009-10 are still pending.

\* 2008/09 includes lapses and supplemental appropriations \*\* These agency budgets utilized federal ARRA funds which reduced the need to spend state General Funds in FY 2008/09 and FY 2009/10; consequently, comparisons between years are misleading as this table only reports General Funds. Please see the table on page 17 which shows total State General Funds and ARRA funds for these agencies.

## State General Fund and Federal ARRA Funds

(Dollars in Thousands)

Agency/ Appropriations	FY 2007-08	FY 2008-09	FY 2009-10	FY 2009-10 less FY 2008-09	
	Actual	Available *	Budget	\$ Change	% Change
<b>Corrections</b>	<b>\$ 1,600,181</b>	<b>\$ 1,605,505</b>	<b>\$ 1,785,240</b>	<b>\$ 179,735</b>	<b>11.2%</b>
State General Fund	1,600,181	1,605,505	1,612,329		
ARRA Fiscal Stabilization	-	-	172,911		
<b>Education - Preferred Appropriations</b>	<b>\$ 9,763,888</b>	<b>\$ 10,037,996</b>	<b>\$ 10,142,465</b>	<b>\$ 104,469</b>	<b>1.0%</b>
State General Fund	9,763,888	10,037,996	9,466,194		
ARRA Fiscal Stabilization - Basic Education	-	-	654,747		
ARRA Fiscal Stabilization - Higher Education	-	-	21,524		
<b>Education - Nonpreferred Appropriations 1/</b>	<b>\$ 780,293</b>	<b>\$ 763,397</b>	<b>\$ 726,949</b>	<b>\$ (36,448)</b>	<b>-4.8%</b>
State General Fund	780,293	728,020	695,731		
ARRA Fiscal Stabilization - Higher Education	-	35,377	31,218		
<b>General Services</b>	<b>\$ 120,515</b>	<b>\$ 117,868</b>	<b>\$ 120,675</b>	<b>\$ 2,807</b>	<b>2.4%</b>
State General Fund	120,515	117,868	120,175		
ARRA Fiscal Stabilization	-	-	500		
<b>Public Welfare</b>	<b>\$ 9,467,212</b>	<b>\$ 10,583,618</b>	<b>\$ 10,427,628</b>	<b>\$ (155,990)</b>	<b>-1.5%</b>
State General Fund	9,467,212	9,426,357	8,727,833		
ARRA FMAP (Enhanced Medicaid Match)	-	1,157,261	1,699,795		
<b>State System Higher Education</b>	<b>\$ 504,240</b>	<b>\$ 524,236</b>	<b>\$ 503,355</b>	<b>\$ (20,881)</b>	<b>-4.0%</b>
State General Fund	504,240	497,168	465,197		
ARRA Fiscal Stabilization - Higher Education	-	27,068	38,158		
<b>Thaddeus Stevens College of Technology</b>	<b>\$ 10,930</b>	<b>\$ 10,700</b>	<b>\$ 10,876</b>	<b>\$ 176</b>	<b>1.6%</b>
State General Fund	10,930	10,293	8,550		
ARRA Fiscal Stabilization - Higher Education	-	407	2,326		

1/ Please note that nonpreferreds for FY 2009-10 are still pending.

\* FY 2008/09 reflects lapses and supplemental appropriations.