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## GENERAL FUND

### 2011-2012 Fiscal Year

The Governor assumes that current revenue shortfall of \$496 million will get worse through the end of the fiscal year to close at a deficit of \$718 million. Today, in his budget presentation, he predicted a fiscal year shortfall of \$718 million which is a shortfall of 2.3% from the Governor's official estimate. In January, the Governor took steps to alleviate this situation by placing \$160 million of planned spending into budgetary reserve. He also requested other agencies to place \$66 million into budgetary reserve. However, the appropriations were already barely adequate, and to cut them further will impact the level and quality of service that the citizens will receive from their state government. If the amounts in budgetary reserve are not restored, the reductions to General Fund expenditures will equal 5% for the 2011-12 fiscal year.

Even though the revenue collections are currently \$496 million below the official estimate, it is not convincing that the Governor's dire predictions are accurate. Tax collections are currently .9% higher than last year's collections. The Governor was calling for 1.3% growth for the entire fiscal year. Collections look to be only slightly below projections as measured by percentage growth. The percentage growth of sales tax is higher than what the Governor was predicting last June and is certainly higher than the growth he is expecting now.

When compared to last year's collections through January, it seems that tax collections are doing fairly well and the chance of reaching the revenue estimate is good. Most of the important tax months lie ahead and the shortage in the corporate numbers is a worry, but collections look fairly robust when compared to the July estimate and are significantly higher than the adjusted estimates contained in the budget.

When the budget was passed in June 2011, the Governor's budget office was expecting to end the 2011-12 fiscal year with a General Fund surplus of \$500 million. In his budget presentation, the Governor lowered that estimate to a year ending surplus of \$93 million.

The Governor anticipates only \$1 million for one supplemental, which is for the receivership in the City of Harrisburg. He is expecting to find lapses of \$195 million to partially offset his expected revenue shortfall of \$718 million. These two factors are expected to reduce the expected general fund surplus to \$93 million at the end of the 2011-2012 budget.

## **2012-2013 Fiscal Year**

### **Revenues:**

Next fiscal year's budget anticipates revenue growth from existing taxes of 4.7% or \$1.27 billion, which is a reasonable growth estimate for a recovering economy and certainly higher than the most likely growth for 2011-12.

To further enhance revenues the Governor proposes changes worth \$242 million. Nearly half of the increase is from increased tax enforcement. Under his plan, the Department of Revenue would have the power to attach the bank accounts of businesses that are delinquent in their taxes and be allowed to withhold the taxes on income before it is distributed to owners of small businesses. Somehow the Governor believes that by guaranteeing the funding of such enhanced tax enforcement through 2016-17 that an additional \$100 million will be raised this year. It is not clear how this program would work.

The Governor would also like to severely limit the vendor discount for the sales tax. Vendors are currently allowed to take 1% of the sales tax that they collect for the state as a reimbursement for their costs to collect and remit the sales tax to the state. The Governor's proposal would cap that vendor discount at \$250 per month. This change is expected to save \$41.3 million annually.

The remainder of his revenue enhancements are various dollars that would be taken from other funds and used to balance the General Fund. They are listed below:

- \$20.5 million cigarette taxes that currently goes to the Agricultural Conservation Easement Purchase Fund. The fund would be eliminated.
- \$6.5 million from the gross receipts tax that was transferred to the Alternative Fuel Incentive Grant Fund would remain in the General Fund.
- \$13.8 million of unused PHEAA funds.
- \$38.6 million of Keystone Recreation, Park and Conservation Fund monies would be transferred to the General Fund.

### **Expenditures:**

The Governor is proposing expenditures of \$27.1 billion for the 2012-2013 fiscal year. That would be a decrease of \$22 million or .08% less than was appropriated this fiscal year. In his mid-year budget briefing the Governor listed \$1 billion in expenditure costs that were unavoidable. Those costs included \$520 million in increased pensions costs which are funded in his budget and \$400 million in increase medical assistance and long term care costs. So, the Governor's budget is really a \$1 billion decrease in most state programs.

Below is a simplified balance sheet (financial statement) that shows what the Governor believes the budget should look like:

(Dollars in Millions)	
Beginning Balance:	\$93
Net Tax Revenues	<u>\$27,060</u>
<b>Funds Available</b>	<b>\$27,153</b>
Expenditures	\$27,138
<b>Ending Balance</b>	<b>\$14</b>

The remainder of this report will provide the details of this budget proposal. The report highlights each agency's proposed spending cuts or increases that build the budget the Governor laid out today.

### **2012-2013 TAXES**

While the Governor sees little growth in tax revenue for 2011-2012, estimating that the revenue shortfall will be \$718 million, he sees much more robust growth for 2012-2013 fiscal year. The anticipated growth is \$1.27 billion or 4.7% over the adjusted current year revenue. The growth is a much more sedate \$554 million or 2% over the 2011-12 certified revenue estimate.

The Governor also proposes to allow the scheduled capital stock and franchise tax rate reduction of 1 mill to occur on January 1, 2013 which will reduce revenues by \$276 million. The Governor has already let the federal tax changes to depreciation reduce Pennsylvania taxes. The expected loss is \$200 million over the next two years.

### **Jobs Update**

Pennsylvania's seasonally adjusted unemployment rate fell to 7.6 percent in December 2011, down three-tenths of a percentage point from November 2011, marking a third consecutive decrease in the state's rate. The commonwealth's rate remained below the national unemployment rate of 8.5 percent for the month of December, and has now been at or below the national rate for 62 consecutive months. After seeing the rate fall the past two months, the decrease in December provides further evidence that the state may be on its way to returning to lower, normal levels of unemployment. The number of unemployed persons in the state for December dropped by almost 14,000 over the prior month, and is down by approximately 50,000 over the same time last year.

The month of December brought additional signs of encouragement for the commonwealth on the jobs front. Employment increased by 6,500 jobs over the prior month. When added to the year over year total, employment is up by nearly 60,000 jobs since the same time last year.

While this news is encouraging, employment growth in the commonwealth is not at the level it should be. Governor Corbett's draconian budget cuts have resulted in mass layoffs in the public sector, counteracting employment gains that have been realized in the private sector. Over the last year, Pennsylvania has lost more than 20,000 public-sector jobs, including some 14,000 education jobs. Among the 50 states, Pennsylvania saw the sixth-largest decline in state and local jobs this past year.

Evidenced by this is the fact that before the passage of Governor Corbett's first budget, employment growth was skyrocketing, with more than 100,000 jobs added between February 2010 and February 2011. In comparison, employment has only grown by a meager 17,000 jobs since the passage of his first budget in June. Additionally, the unemployment rate for December 2011 of 7.6% is still higher than it was for this past May (7.4%), before the passage of Governor Corbett's first budget. In effect, these public sector job losses put the brakes on Pennsylvania's economic recovery, helping to increase the state's unemployment rate and endangering employment gains that were being realized in other sectors. As a result, the commonwealth is now just beginning to return to the levels of unemployment achieved almost a year ago.

## **THE DEPARTMENT OF EDUCATION**

The Governor's proposed budget includes a new line entitled School Achievement Education Block Grant which combines four previously separate appropriations: basic education subsidy, pupil transportation, non-public and charter school transportation and school employees' social security. Funding is increased from the current year by a mere \$21.8 million for this line, but that increase would likely be needed for increased transportation costs. In addition, \$100 million in Accountability Block Grants which were distributed in the current year, have been eliminated. The program provided funding for programs such as pre-kindergarten, full-day kindergarten, and class size reduction. In 2010-11 the program received \$255 million.

The budget document touts this as allowing for more flexibility, allowing decision-making to rest with the local school district administrators and school boards. However, since districts lost almost \$1 billion overall in FY 2011-12 with reductions in the basic education subsidy and the elimination or reductions to other targeted programs, the rhetoric of flexibility is a thinly veiled attempt to shift the blame of tough decisions that must be made by the school districts and not the Corbett Administration. In addition, pension costs for school districts will increase 3.71% for 2012-13.

The General Government Operations appropriation is reduced 2.3% and includes funding for a school report card initiative to assess public schools in the areas of academic performance, school safety and fiscal strength. In addition, funds will be used to revise reporting systems to reflect real-time child counts.

Special Education funding provides support for programs in the Commonwealth's public schools serving students with disabilities. These programs are administered by all 500 school districts, and charter schools where appropriate. The department estimates that the number of pupils with disabilities enrolled in special education programs will be 269,500 in 2012/13. The budget request flat-funds the special education line, at \$1.027 million.

Funding for Approved Private Schools and the Chartered Schools for the Deaf and Blind would remain at current year levels.

Early Childhood Education programs are funded in both PDE and DPW. The budget recommends funding in PDE for the Pre-K Counts program at \$78.6 million, a reduction of \$4 million. Pre-K Counts provides funding for early childhood learning, focusing on at-risk students. It is anticipated that nearly 11,400 children will participate in this program in 2012/13. The budget document assumes a reduction in costs to administer the program.

Head Start Supplemental Assistance, which expands pre-K services to eligible children, would be reduced \$1.9 million.

The Governor recommends an increase in funding for Early Intervention which provides services and support for children with developmental delays. The funding increase of \$8.0 million would expand services to 1,500 additional children from ages 3 to 5.

Nonpublic Schools program funding would receive \$5.6 million in reductions in the 2012/13 budget. Specifically, services to nonpublic schools would receive \$82.1million; and textbooks and materials \$24.9million.

The Teacher Professional Development appropriation contains \$3.7 million for a teacher and principal evaluation tool which includes measures of practice and student achievement.

The PA Assessment line is increased 42.6% to reflect a \$15.6 million allocation for revisions to the Keystone Exams program.

The Public Library Subsidy would receive a reduction of 5% or a \$2.7 million reduction. The library subsidy supports more than 600 library facilities and 29 district library centers across the Commonwealth. In addition, Key '93 monies for library rehabilitation and development projects, totaling \$1.9 million, will be available.

The proposed budget eliminates funding for the School Nutrition Incentive Program, the Mobile Science Education Program, Job Training Programs and Regional Community Colleges Services.

## **HIGHER EDUCATION INSTITUTIONS**

Overall, funding for higher education institutions, including 2 year and 4 year, both private and public, would be reduced by \$267.0 million, if the Governor's proposed budget is enacted.

### **Community Colleges**

The Governor's proposed budget reduces funding for community colleges by 3.8% overall, however employees' social security payments were rolled in and increased slightly, therefore the base allocation for the colleges was reduced 5%. Community Colleges would receive \$221.9 million in state funds for 2012/13. In the current year, funds for Community Colleges were reduced 10% from the prior year. In 2010-11, with a combination of federal ARRA funds and state funds, community colleges received \$254.3 million. Available funds for capital projects would be level funded at \$46.4 million.

The Governor is proposing to reduce the economic stipend set-aside mandate which increased funding to colleges who had a higher number of students enrolled in economic development programs that focus on high priority occupations. He is also proposing to use \$5 million from PHEAA earnings for a new Targeted Industry Cluster Certification Program which would provide grants to students enrolling in targeted industry certification programs that are less than 2 years.

The Administration has created an Advisory Commission on Postsecondary Education to assess higher education programs and business needs.

### **Pennsylvania State System of Higher Education**

The Pennsylvania State System of Higher Education (PASSHE) would receive a reduction of 20% in funding. The Governor is recommending an appropriation of \$330.2 million. The current year appropriation is \$412.7 million. Governor Corbett has requested that PASSHE return more than \$20 million to the general fund, although to date the board has not approved this freeze. In 2010-11, PASSHE received \$503.4 million in state and federal ARRA money combined.

The budget proposes to redirect to the General Fund PASSHE's share of the Keystone Recreation, Park and Conservation Fund, used for deferred maintenance projects.

Funding is distributed through the Chancellor's Office to 14 individual universities in accordance with a formula that considers the enrollment and programs of the school and the cost of operating and maintaining the individual campuses.

The 18 percent reduction in the state appropriation for the current year, translated into an \$800 per student loss. Tuition increased by \$436. The impact of reduced state funding led to fewer adjunct faculty being hired, class sizes having increased, vacancies having not been filled and many lower-enrolled programs having been put in moratorium or discontinued. Throughout the System, almost 1,000 jobs were lost due to funding cuts.

### **State-related Universities**

The Governor's proposed budget cuts funding for the state-related universities, specifically the Pennsylvania State University, the University of Pittsburgh, and Temple University by 30%. The appropriation for Lincoln University would not be reduced. The total proposed funding for the four state-related universities is \$367.8 million. As appropriated, state funding for these universities in the current year totaled \$514.9 million, however the Governor has placed \$25.7 million in budgetary reserve. In the 2010-11 fiscal year, with a combination of state and ARRA monies, the institutions received \$688.4 million.

The state-related universities use the state appropriation to reduce tuition charged to in-state residents. At a time when parents and students are burdened with the cost of an increasingly expensive college education, these state budget cuts will make the situation even worse.

## **PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY**

The Pennsylvania Higher Education Assistance Agency (PHEAA) provides grants, scholarships, loan forgiveness, and other financial assistance to students and higher education institutions.

### **Grants to Students**

The Grants to Students appropriation comprises the largest portion of the PHEAA state appropriation. For 2012/13, the Governor is recommending total state funding of \$361.9 million, and is assuming that the PHEAA Board of Directors will direct \$50 million from its business earnings, as in the current year, to be used to supplement the State Grant Program. This funding reflects a 5% decrease from the current year.

The State Grant amount as a percentage of applicant's total educational cost would be reduced from 9.5% in the current year to 8.4% in 2012-13.

It is anticipated that the number of eligible grant recipients will increase for fall 2013. If this amount is enacted, the Board will have to decide whether to reduce the number of grants awarded, or to reduce the average award (estimated at \$2,685 for 2011/12) and the maximum grant amounts (\$4,309 in 2011/12).

In the current year, state funding in the amount of \$380.0 million was enacted. Upon the Governor's request, the Board agreed to freeze \$10 million in Grant Program funding.

### **Institutional Assistance Grants**

The Institutional Assistance Grants line, which provides assistances to higher education institutions that do not receive other state funds, is recommended to be reduced by 30% and would receive a funding amount of \$17.1 million. Eighty-eight institutions receive this allocation based upon the total number of eligible grant recipients enrolled. It is expected that in 2012/13 per capita grant amount would be reduced from \$669 to \$508. Since 2010-11, the last year of the Rendell Administration, funding has been reduced \$13.0 million.

Proposed funding for the other appropriations in the PHEAA budget are reduced 5% for:

- Bond Hill Scholarships
- Cheney Keystone Academy
- Matching Payments for Student Aid
- Higher Education for the Disadvantaged
- Higher Education of Blind or Deaf Students (reduced 4.1%)

## **DEPARTMENT OF PUBLIC WELFARE**

As part of the enacted budget of Fiscal Year 2011-2012, Act 22 of 2011, the Public Welfare Code Bill, was amended to give unprecedented rule making authority to the Secretary of Public Welfare to redesign public assistance programs. To date, the Secretary has not used this authority to make any significant changes to those programs.

Secretary Alexander has sent a request to the United States Department of Agriculture making them aware that Pennsylvania will re-instate the asset test for the Supplemental Nutrition Assistance Program (SNAP). Currently 35 states have eliminated the asset test for the SNAP program. It is expected that about 0.2% of the 1.8 million Pennsylvanians that utilized this program will lose their benefits, mostly elderly and disabled.

In January 2012, the Governor placed \$55 million in budgetary reserve for DPW, reducing the already drastically reduced budget and cutting even more services as a result. It is estimated that approximately 88,000 children have been removed from the Medical Assistance (MA) rolls since August, mostly due to paperwork issues. Since children are entitled to health care in Pennsylvania, these children, who were in a shared state/federal program in MA, will now most likely be covered in CHIP, a state only funded program.

The Commonwealth's General Fund total expenditures are projected to *decrease* by \$22.5 million or -0.1% and DPW's General Fund spending will *decrease* by \$29.6 million.

**Medical Assistance**

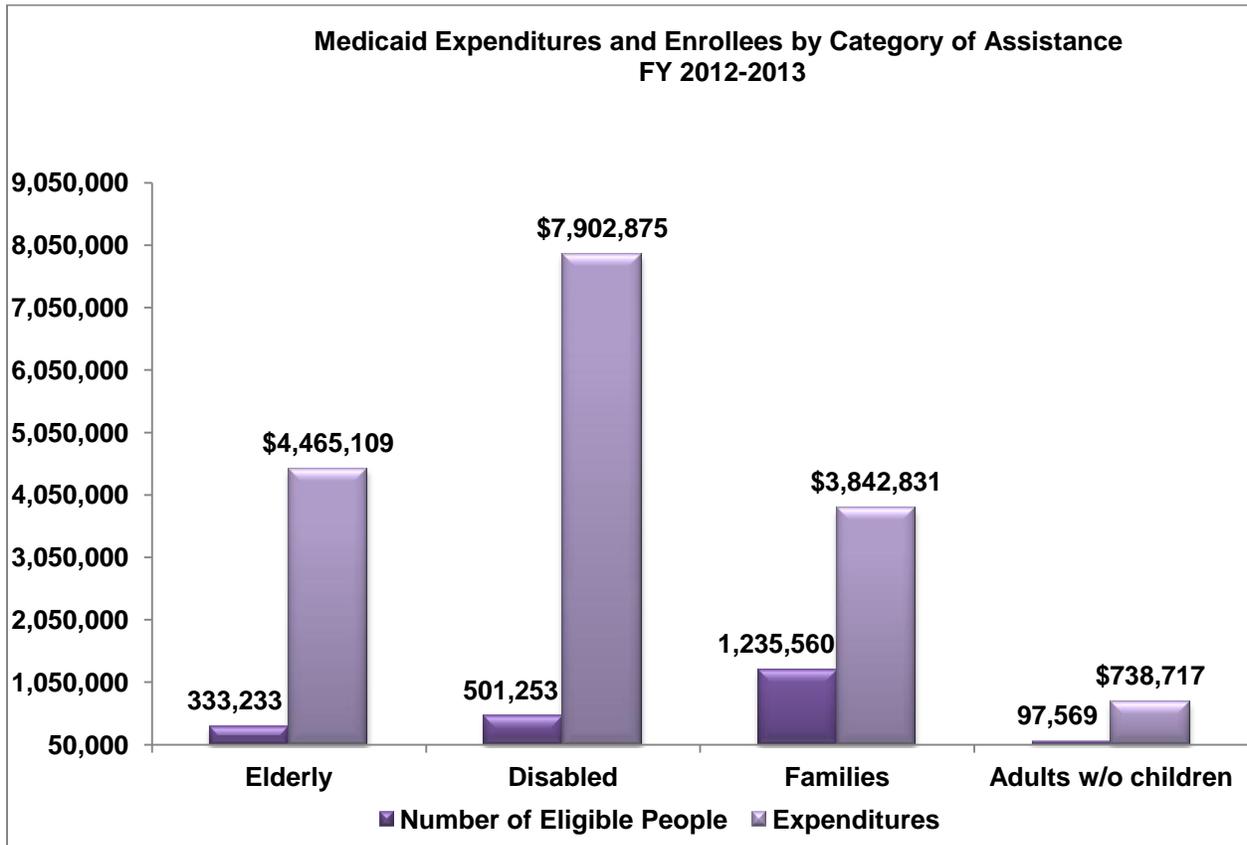
During FY 12/13, Medical Assistance will provide health care coverage and long term care services to more than 2.1 million Pennsylvanians, a 9.4% decrease from the current year.

**“Big 5” Medical Assistance Appropriations**

	FY 11/12	FY 12/13	Difference
Outpatient	\$ 645,095	\$ 506,677	(\$138,418)
Inpatient	\$ 325,685	\$ 275,208	(\$ 50,477)
Capitation	\$3,330,457	\$3,667,626	\$337,169
LTC (all)	\$ 965,614	\$ 981,945	\$ 16,331
Medicare Part D	\$ 473,612	\$ 521,035	\$ 47,423
<b>Total</b>	<b>\$5,266,851</b>	<b>\$5,431,456</b>	<b>\$164,605</b>

The current demographics for the Medical Assistance system are as follows:

	<b>% of Caseload</b>	<b>% of Dollars</b>
Disabled	15%	26%
Elderly	23%	47%
Children & Families	57%	23%
Adults without children	5%	4%



\*\* Although the disabled and elderly are only 38% of the total Medical Assistance population, they account for 73% of the Medical Assistance expenditures.

### Cost Savings Initiatives

Millions

<p><b>Human Services Development Fund Block Grant Proposal</b>                  This initiative combines several county administered programs into one grant giving counties more flexibility in that area.</p>	\$168.4
<p><b>General Assistance Program Reform</b>                  Savings generated from revisions to the eligibility criteria for medical assistance benefits through the General Assistance program. Savings are also realized by elimination of cash assistance benefits provided through the GA program.</p>	\$319.2
<p><b>Revised Provider Reimbursement</b>                  Savings generated from a 4% reduction to provider reimbursement rates to hospitals and nursing facilities.</p>	\$58.9
<p><b>Hospital Application Process</b>                  Savings generated from maintaining recipients enrolled through the hospital application process in the fee-for-service program until redetermination</p>	\$10.0
<p><b>Child Care Reimbursement Reform</b>                  Savings generated from a reduction in the number of paid absences and a decrease in the reimbursement rates for unregulated relative and neighbor care.</p>	\$10.0
<p><b>High-Cost Case Review</b>                  Savings generated through intensive review and case management of high-cost consumers enrolled in medical assistance programs that reimburse for services based on utilization and fee schedules.</p>	\$45.0
<p><b>Audit Enhancements</b>                  Savings generated through the implementation of an automated audit system to identify waste, fraud and abuse prior to and after the issuance of provider payments.</p>	\$5.0
<p><b>Foster Care Enhancements</b>                  Savings generated through increased federal funds to support additional youth ages 18-24 in foster care.</p>	\$4.5
<p><b>MAWD Premium Reform</b>                  Increase premiums from 5% up to 7.5% based on CPI for those receiving benefits. The premiums have not been adjusted since 2001. The requirement of paying these premiums will be enforced.</p>	\$10.0
<p><b>TOTAL</b></p>	<b>\$631.0</b>

### **Adult Protective Services**

The Governor's Budget provides \$664,000 to implement an adult protective services system to protect physically and cognitively impaired individuals ages 18-59.

### **Expansion of HealthChoices Statewide**

Implementation of the HealthChoices program for the New West Zone (13 counties) is expected for September 1, 2012. The expansion for the New East Zone (22 counties) is scheduled for March 1, 2013. There are no cost savings included in the FY 12/13 budget due to implementation delays. A full year cost savings will be realized in FY13/14.

### **Human Services Funding**

County Child Welfare Needs Based Budget funding will increase by \$48.5 million in FY 12/13. The funding for the Nurse Family Partnership, Domestic Violence, Rape Crisis and Breast Cancer Screening programs will be maintained at the FY 11/12 funding level.

Child Care Services and Child Care Assistance remain level funded with the exception of the savings associated with paid absences and rate changes for the Relative/Neighbor providers.

### **Human Services Development Fund Block Grant**

DPW is proposing to combine several county based service appropriations into one Human Services Development Fund Block Grant. This new block grant will give counties added flexibility in the areas of Mental Health Community Programs, Behavioral Health Services, Intellectual Disabilities – Community Base Program, County Child Welfare Special Grants, Homeless Assistance Program and the Act 152 Drug & Alcohol Program. DPW is projecting this change will result in 20% efficiency savings of \$168.4 million.

## EXECUTIVE OFFICES

The proposed budget does little to effect state funding levels within the Governor's Executive Offices for the 2012-13 fiscal year (FY). Total state funding for the offices is proposed at \$161 million, representing a cut of approximately 1.5% from enacted FY 11-12 spending levels, or a reduction of roughly \$2.5 million. The majority of line items within the Governor's Executive Offices are roughly level funded over FY 2011-12, however, there are a few notable changes to a select group of appropriations which are listed as follows:

- For FY 2012-13, an increase of \$1.2 million for Commonwealth Technology Services (CTS), which provides information technology services to state agencies and administers the data center outsourcing contract. This increase raises the total state allocation for this appropriation to \$43.3 million.
- The elimination of funding for the Unemployment Compensation and Transition Costs line item, which provides for unemployment and transition costs of staff affected by program eliminations within the Governor's Executive Offices. Funding for this appropriation was set at \$1.5 million in FY 2011-12.
- A proposed cut of nearly \$1 million for the Governor's Office of the Budget, lowering its total appropriation from \$19.5 million in FY 2011-12 to \$18.5 million for FY 2012-13.
- Funding for the Office of the Public Liaison has been transferred to the Office of the Governor. The Office of the Public Liaison was formed in FY 2011-12 from the consolidation of the Latino Affairs Commission, African American Affairs Commission, Asian American Affairs Commission and Commission for Women. Although funding has been transferred to the Governor's Office in the proposal, the exact amount is not specified, causing some speculation as to what sort of impact this transfer will have. Funding for the Office of the Governor has been cut by nearly \$400,000, from \$6.5 million in FY 2011-12 to \$6.1 million for FY 2012-13, yet it is taking on the responsibility of a new office whose funding was set at nearly \$400,000 in FY 2011-12.
- The Public Employee Retirement Commission is moved from the Executive Offices to the Department of Community and Economic Development. This Commission is charged with developing the actuarial studies of all pension legislation considered by the General Assembly. The reason for moving the Commission is not clear and concerns about the Commission's continuing objectivity will have to be answered.
- A proposed reduction of nearly \$900,000 for the Juvenile Probation Services line item, which provides support for school-based probation, community-based probation, intensive probation and aftercare services. This proposed cut reduces funding for the appropriation by 5%, down to \$16.4 million.

- A proposed reduction of \$340,000 for the Office of Administration, lowering its total appropriation to \$8.1 million.

## **ROW OFFICES**

### **Auditor General**

Under the Governor's proposed budget, the Office of the Auditor General will see no significant changes over enacted Fiscal Year (FY) 2011-2012 funding levels with the following exception:

- A decrease of approximately \$2.2 million, or 5%, for its General Government Operations (GGO).

### **Attorney General**

The Governor has recommended an appropriation in the amount of \$78.121 million for the Office of Attorney General (OAG) in the FY 2012-13 proposed budget. This represents an overall decrease in funding of \$2.43 million from FY 2011-12. General Government Operations (GGO) in the OAG was cut by approximately 5%. Compared to fiscal year 2010-11 funding levels, the office has had funding reduced by nearly 6%. The GGO appropriations supports most of the non-drug elements of the OAG's Criminal Law Division; most of the Public Protection Division, which protects Pennsylvania's consumers, the entire Civil Law Division, which defends the Commonwealth and its agencies in litigation; and the executive and administrative functions of the OAG. This includes salary, benefits and retirement contributions.

The proposed OAG budget includes continuing appropriations for the following items:

- \$3.014 million—Joint Local-State Firearms Task Force
- \$1.099 million—Witness Relocation Program
- \$1.998 million—Drug Strike Task Forces
- \$9.604 million—Local Drug Task Forces

### **Treasury**

The Treasurer's Office general government line is also proposed to decrease by 5%, which is a \$1.7 million reduction. However, the Treasury's long standing need for a replacement mainframe computer is given \$7.4 million to continue the process, which is almost the same as what was available last year.

The commonwealth's debt service payments increased by \$78 million or 7.5% in the Governor's proposed budget.

## **DEPARTMENT OF AGING**

### **Family Caregiver Support**

The Family Caregiver Support Program appropriation from the lottery fund would remain at the current year's funding level, under the Governor's proposed budget. This program is also supported by \$10 million in federal funds. The program assists families who maintain frail relatives in their home. Working through AAA's, the program provides benefits counseling and, depending on income, financial assistance including supplies, services and home adaptations and devices. It is anticipated that 7,120 families will receive these services in 2012-13.

### **Pre-Admission Assessment**

Funding for the Pre-Admission Assessment Program is maintained in the proposed budget. Funded by the lottery and federal funds, this nursing home pre-admission screening program helps older Pennsylvanians and their families determine the least restrictive environment needed and assists them in securing and managing intensive in-home services tailored to their needs

### **PENNCARE**

The PENNCARE program provides home and community based services to older Pennsylvanians to enrich their lives and enable them to delay or avoid moving to a nursing home. This budget proposal includes \$248.2 million for the lottery funded PENNCARE appropriation, in addition to federal funds, to continue the current Attendant Care Program and provide services to 2,280 recipients. Funds are also used for Older Adult Protective Services to investigate suspected elder abuse reports.

### **Pharmaceutical Assistance**

The Governor's budget reflects a decrease of \$35 million in funding for 2012-2013 when compared to the current fiscal year. The PACENET total prescriptions per year decreased in 2011-2012 due to changes in the Medicare Part D program enacted in the "Patient Protection and Affordable Care Act".

## **DEPARTMENT OF AGRICULTURE**

Pennsylvania's number one industry is agriculture. The Department of Agriculture serves over 60,000 farms on almost 8 million acres of land, and provides consumer protection to all Pennsylvania residents.

The proposed budget calls for some changes to the Department of Agriculture's funding lines. It calls for funding to PA Fairs, the University of Pennsylvania Veterinary School and Center for Infectious Disease and Transfer to Agricultural College Land Scrip Fund Restricted Account to all be moved to the Race Horse Development Fund. This shift in funding would account for about a \$75 million reduction in General Fund money to the department.

Elsewhere in the department's proposed budget, many line items are level funded or face only slim cuts although there are a handful of line items that are eliminated. The eliminated lines include Agricultural Excellence, Agricultural Research, Agricultural Promotion, Education, and Exports, Hardwoods Research and Promotion, Livestock Show, Open Dairy Show and Food Marketing and Research. Together these accounted for \$2.3 million in FY 2011-12, and about \$3.6 million in FY 2010-11.

## **CORRECTIONS**

### **Background**

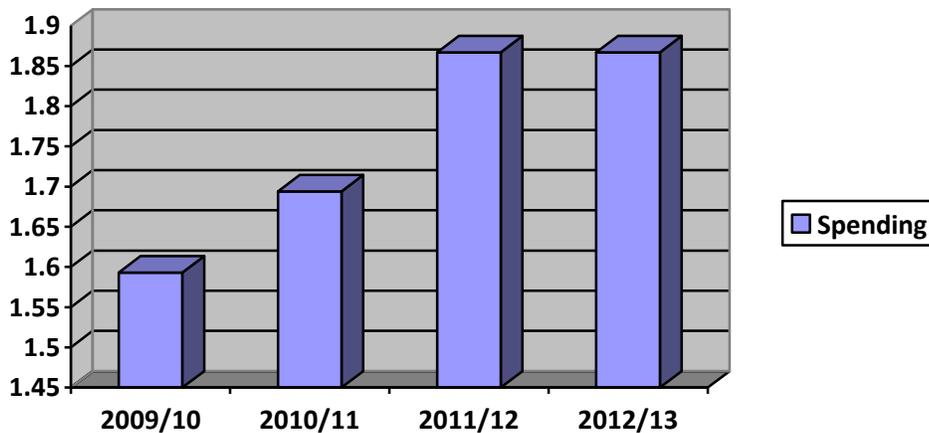
The size and cost of America's prison system has skyrocketed during the last few decades, largely as a result of laws and policies that put more offenders behind bars and keep them there longer. However, states around the country have recently started questioning whether warehousing law breakers for long periods of time is the best use of taxpayers' dollars. There are some areas that seem to need reform. For example, inmates are still often serving longer terms (an average of 111 days) than required because they can't access the vocational, educational, and substance abuse treatment programs that the parole board requires them to complete before being eligible for release. While some strides have been made to help alleviate Pennsylvania's substantial prison population, there are still strides to be made until PA is considered "smart" on crime.

### **FY 2012/2013 Budget**

#### **State Correctional Institutions and Community Correction Centers**

In the Governor's proposed 2012-2013 budget, state spending for the Department of Corrections will be flat funded at the current year level of \$1.867 billion. When compared to FY 2010-11 funding levels, this represents an increase of 12%.

## State Correctional Institution Appropriations (Dollar amounts in Millions)



Currently, the Commonwealth is operating at 1,728 inmates over capacity. For FY 2012/2013, the Governor is requesting an increase of \$21.3 million for the institutional system, which houses an offender population that stands at 51,638 inmates as of December 2011. Of this population, 48,041 are housed throughout the State's 27 institutions, while the remaining inmates are housed in Community Correction Centers and other jurisdictions.

The Department anticipates saving nearly \$50 million through administrative savings and also by operational and process changes that will produce savings from reductions in population. He also anticipates \$13 million in savings through a nonrecurring 2011-12 budgetary freeze amount. However, he anticipates needing \$81 million to continue the current programs.

In 2011, the DOC returned the inmates that were housed in Michigan. The Department anticipates bringing back the 1,000 inmates temporarily housed in Virginia in early 2012.

The DOC will begin to feel the effects of Act 81 of 2008 in FY 2012-13. This Act will eliminate a judge's discretion in determining whether an inmate sentenced to 2-5 years incarceration will serve the time at a county or state facility, rather, the inmate will have to serve it at the state level. Because of this, the DOC is anticipating an increase of anywhere from 1,200 to 2,400 inmates per year.

### **Medical**

The Governor anticipates a \$21.3 million decrease in inmate medical care in FY 12-13. The majority of this savings is achieved from savings from reductions in contracted medical care costs and population reductions.

## **BOARD OF PROBATION AND PAROLE**

### **Background**

According to the Bureau of Justice Statistics, at year end 2010, about 4.9 million adult men and women were supervised in the community either on probation or parole. At year end 2010, about 1 of every 48 adults was on probation or parole.

Probationers are offenders whom courts place on community supervision generally in lieu of incarceration; whereas parolees are individuals conditionally released to community supervision whether by a parole board decision or by a mandatory conditional release after serving a prison term. Parolees run the risk of being returned to prison for rule violation or other offenses.

### **FY 2012/2013 Budget**

In the proposed FY 2012-2013 budget, the Governor has recommended an increase in Probation and Parole's General Government Operations spending of \$5.32 million, or 5.1% over current year. The \$5.32 million increase includes \$5 million to continue current programs with the remaining for new initiatives. The first initiative will enhance Parole Supervision Services by providing resources to supervise an increased parolee population, while the second initiative will provide resources to review current case files to determine registry requirements required by Act 111 of 2011.

At the end of FY 2012-2013, the Board anticipates approximately 40,400 supervised parolees and probationers, up 3,700 or 10% over current year projections.

The Sexual Offenders Assessment Board received an additional \$365,000.

The estimated State Supervision Fee Collections for FY 2012-2013 are \$3.9 million, which is a decrease of \$200,000 over current year collections.

## **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**

Pennsylvania had been making advances in job creation and employment rates, outpacing neighboring states as well as the national numbers. However, after drastic budget cuts to some key programs, Pennsylvania has stumbled a bit in these gains.

The proposed budget for the Department of Community and Economic Development (DCED) calls for even deeper cuts to programs and line items that have taken repeated hits over the past several years. DCED is a department that is so vital to job creation and business expansion in Pennsylvania, and it has seen its budget go from over half a billion dollars less than 5 years ago to just over \$250 million in FY 2009-10 to \$211.7 million in the current proposed budget.

DCED will see a proposed \$2.5 million increase to its General Government Operations (GGO) line, though this line now includes the Public Employees Retirement Commission and the GGO for the State Tax Equalization Board. However, even with the addition of these to DCED's GGO, the proposed amount still includes an increase of \$753,000 over the current year enacted GGO amount.

Last year, DCED faced the added challenge of consolidating myriad programs that spanned several line items into a handful of new programs. In addition to creating new guiding principles for these programs, DCED was also faced with how to accommodate qualified groups with significantly less funding than was available just one year before. There are now even more qualified and eligible groups applying for these funds, at a time when the proposed budget calls for even more draconian cuts to these line items. Of these programs, PA First and Keystone Communities received 10% cuts, while Partnerships for Regional Economic Performance and Discovered in PA, Developed in PA remained level funded.

Some noteworthy areas include Marketing to Attract Tourists, which has seen a 70% decrease in funding over the past 2 years despite being Pennsylvania's second largest industry; the total elimination of funding to the Industrial Resource Centers; and a roughly 30% decrease in funding for Infrastructure and Facilities Improvement Grants since FY 2010-11.

The Homeowners Emergency Mortgage Assistance Program (HEMAP) that is funded through the Pennsylvania Housing Finance Agency has been eliminated completely in the proposed budget. This successful program has served as a national model for assistance to help keep struggling families in their homes. After being consistently funded at approximately \$11 million for many years up through FY 2010-11, HEMAP was cut to just \$2 million in last year's budget.

With all state and federal money included, DCED is set to receive \$452.66 million for FY 2012-13. This reflects a decrease of \$27.3 million, or 6%, from FY 2011-12; and a decrease of \$231 million, or 34%, from FY 2010-11.

## DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

The Department of Conservation and Natural Resources (DCNR) fell victim to the Governor's budget axe once again in his proposed budget for fiscal year (FY) 2012-13. Although the cuts proposed for the department may not appear severe on paper, their impact and meaning become far more troubling when combined with the reductions imposed on the department for the FY 2011-12 budget cycle.

Take for example the department's state parks operations. State funding was reduced by roughly \$18 million, down to a total of \$27.5 million, in FY 2011-12 for state parks operations, and is proposed to be cut by an additional \$1.4 million in FY 2012-13 under the Governor's budget. When combined with the reduction for FY 2011-12, the Governor's proposal reduces state funding for the department's state parks operations by a whopping 43% over the 2010-11 fiscal year.

Similarly, funding for state forest operations is cut by \$400,000 for FY 2012-13, lowering the total for this appropriation to \$5.4 million, even after having its funding reduced by \$6 million for FY 2011-12. When these two reductions are combined, state funding for the department's state forest operations is cut by roughly 54% in the Governor's proposal over the 2010-11 fiscal year.

Additionally, state funding for the department's general government operations (ggo) is reduced by approximately \$900,000 under the proposal, lowering its total from \$17.1 million in FY 2011-12 to \$16.2 million for FY 2012-13. Funding for the department's ggo stood at \$18.3 million in FY 2010-11, meaning the proposal would reduce DCNR's total ggo state allocation by nearly 12% over that fiscal year.

In an effort to offset the appearance and severity of the previously mentioned reductions in state funding, the Governor will continue to raid and rely heavily on other funding sources, namely the Oil and Gas Lease Fund, to supplement line items within the department. Under the proposal, state spending within the department is cut by 35% from FY 2010-11, with more than 30% of the department's total budget being funded by the Oil and Gas Lease Fund. In comparison, only 9% of department's budget was funded by the Oil and Gas Lease Fund in FY 2010-11. A total of \$70 million from the fund will be transferred to the department in FY 2012-13 to supplement its ggo, state park operations and state forest operations for the coming fiscal year. However, even with this increased transfer, the department's total budget would still be approximately \$27 million less than it was in FY 2010-11 under the proposal.

The practice of using Oil and Gas Lease Fund monies to back-fund department operations is concerning. Not only does it help to legitimize the reduction of state monies within the department, but it also sets a precedent for the use of these funds that blur their original intent and purpose. These Oil and Gas Lease Fund monies were intended to be reinvested back into conservation and environmental programs, not in the department's typical day-to-day operations. If the department were adequately funded with state dollars, then that would free up these Oil and Gas Lease Fund monies to be directed towards worthwhile conservation and environmental programs, such as the successful Growing Greener initiative, that desperately needs funding to continue their efforts.

While the department will receive an increased allocation from the Oil and Gas Lease Fund, it will receive no funding from the Keystone Recreation, Park and Conservation Fund under the proposed budget. When appropriated in previous years, the department used these funds for state park and forest lands rehabilitation, repairs and upgrades of facilities, and for land acquisition. The department received \$33 million from the fund in FY 2010-11 and \$24 million in 2011-12. However, the Governor eliminated the department's allocation from the fund in his proposal choosing to direct it to the General Fund, reaffirming his complete and utter disregard for the environment. This is especially damning when noting the expiration of the Growing Greener II program over the past year, which helped to fund similar projects through the department.

## **DEPARTMENT OF ENVIRONMENTAL PROTECTION**

The proposed funding of the general government of DEP is decreased again this year by \$108,000 in the Governor's budget proposal. That additional reduction is on top of last year's \$2.3 million or 17% reduction. The proposed amount of \$10 million would represent a 24% decrease in the appropriation over the last 4 years. Environmental Program Management is slated for a whopping cut of 11% or \$3.1 million. Over the last four years, Environmental Program Management has suffered a 14% reduction in funds.

Environmental Protection Operations, which is the third major administrative line item in DEP's budget is slated for reduction of \$3.5 million which is equal to a 4.6% reduction from the current year.

The Governor does propose ending three programs entirely as funding of sewage facilities for both planning grants and enforcement grants are to be eliminated. A small funding commitment of \$13,000 for the Ohio River Basin Commission would also be ended totally. Most of the other grant programs under DEP will be reduced as the total for grants would be reduced from \$8.4 million to \$4.8 million.

## **ETHICS COMMISSION**

The Ethics Commission is set to receive \$1.6 million in state funds for the 2012-2013 Fiscal Year. This represents a decrease of \$88,000 from the current year. The Pennsylvania State Ethics commission is an independent state agency which is responsible for rendering advisory opinions, and enforcing the Public Official and Employee Ethics Act as it relates to the filing of Statements of Financial Interest forms and investigating alleged violations of the Act. The Commission is also responsible for providing guidance and education to public officials and public employees regarding their duties and responsibilities under the law.

## **STATE GAMING FUND**

Act 71 of 2004 legalized slot machine gaming in the Commonwealth and created the State Gaming Fund to receive all license fees provided for in the Act and tax revenues generated by the Commonwealth's gaming facilities. Monies in the fund are annually distributed to various programs, while the remaining funds are transferred to the Property Tax Relief Fund.

It is estimated that the State Gaming Fund will disburse approximately \$1.26 billion in Fiscal Year 2012-13 for programs associated with Act 71, including Compulsive and Problem Gambling, Drug and Alcohol Programs, Local Law Enforcement Grants, and Emergency Management and Homeland Security Volunteer Company Grants.

The disbursements also include monies for counties and municipalities that host casinos, economic development projects, and the costs associated with regulating the gaming industry incurred by the Pennsylvania Gaming Control Board, Pennsylvania State Police, Department of Revenue, and Attorney General.

The proposed PGCB budget is \$36.098 million.

## **TABLE GAME TAXES (GENERAL FUND)**

Act 1 of 2010 legalized table games at Pennsylvania casinos. The state tax rate for table games is 14% for the first two years of operation. Those revenues are deposited into the General Fund. After 2 years, the Commonwealth's portion of the table games tax is reduced to 12%. Casinos also pay an additional 2% as a local share assessment. Table game taxes will shift to the Property Tax Relief Fund when the Rainy Day Fund reaches \$750 million.

For FY 2012-13, table game revenues are expected to generate \$92 million in revenue. For FY 2011-12, table game taxes were estimated to generate \$87.5 million. However, that estimate was later revised upward to \$92 million.

## **PROPERTY TAX RELIEF FUND**

Act 71 of 2004 legalized slot machine gaming in the Commonwealth and created the Property Tax Relief Fund. The Property Tax Relief Fund receives tax revenues from slot machine gaming. Those funds are used to provide school district property tax relief in every school district except Philadelphia. Philadelphia uses its allocation to reduce the city's resident and non-resident wage tax.

The total amount available for property tax and wage tax relief in Fiscal Year 2012-2013 is estimated to be \$778.9 million. The total amount is broken down as follows:

- \$595 million for general school district property tax
- \$17.1 million for Philadelphia wage tax relief
- \$137.8 million for the Senior Citizen Property Tax and Rent Rebate Program
  - \$29.0 million for supplemental senior citizen property tax rebates

## **DEPARTMENT OF GENERAL SERVICES**

The Department of General Services is set to receive a proposed \$117.5 million in state funds for the 2012-2013 Fiscal Year. This amounts to approximately a \$1.5 million decrease in General Government Operations. This appropriation provides funding for property and facilities management, space acquisition and utilization, procurement, public works, and administrative support operations for the Department of General Services. The department also receives an appropriation for Excess Insurance Coverage, Federal and State Surplus, Commonwealth Media Services, and the CoStars Program.

Rental and Municipal Chargers or lease costs increased by \$386,000 while the appropriation for Utility Costs decreased by \$1.3 million based on current estimates. The appropriation for the Excess Insurance Coverage was increased from \$1.4 million to \$1.6 million. No appropriation was listed in the current budget for printing the Pennsylvania Manual. The department's largest increase by far in state funding for the 2012-13 FY was in Capitol Fire Protection, which increased from \$496,000 in FY 2010-2011 to \$2.5 million under the proposed 2012-2013 budget. The department also received a reduction for the temporary vehicle fleet from \$1.3 million to \$787,000 or a decrease of \$523,000.

Note: The department's recent purchase of the Forum Place for \$100 million is not reflected in any category or line item for the proposed Fiscal Year 2012-2013 budget.

## DEPARTMENT OF HEALTH

### **AIDS Programs**

The Governor's proposed budget maintains funding of \$7.2 million for FY 2012-13. Many of the AIDS services are housed and operate at the State Health Care centers. There are services centered on community intervention projects for at-risk populations and the provision of care and case management for persons infected with AIDS/HIV. The AIDS program provides community intervention projects for high risk populations and provision of care, critical case management. Confidential and anonymous HIV testing and partner notification services are provided at over 400 sites statewide.

### **Cancer Programs**

The Governor's budget maintains funding at \$2.5 million in FY 2012-13 for Cancer Screening Services. These programs focus on encouraging lifestyle changes to prevent the development of cancer and to support research, routine testing, screening and early testing, and early intervention to improve the chance of survival for those who have cancer.

### **Other Health Programs**

Funding for Diabetes Programs, Arthritis, Lupus, Regional Poison Control Centers, Trauma Program Coordination, Epilepsy Support Services, Bio-Technology Research and Tourette Syndrome has been eliminated for FY 2012-13.

### **Tobacco Settlement Funds**

Funding for Health Research has been eliminated for FY 2012-13. The Governor proposes to redirect the Tobacco Master Settlement Agreement revenue for Health Research (CURE), which includes the Health Priorities and National Cancer Institute initiatives, to offset General Fund costs. The CURE program provides health research grants to Pennsylvania-based research institutions for biomedical, clinical and health research designed to improve the health of all Pennsylvania citizens. These "seed" grants are used to leverage federal dollars in years to follow.

## **DEPARTMENT OF DRUG AND ALCOHOL**

Act 50 of 2010 transferred Drug and Alcohol Abuse Prevention and Treatment from the Department of Health. The department will develop and implement a comprehensive state plan to reduce substance abuse and dependency through quality prevention, intervention, rehabilitation and treatment programs. The department will also educate all population segments on the effects of drug and alcohol abuse and the dangers abuse and dependency pose to public health.

This program provides counties with funding to provide drug and alcohol services for Pennsylvanians who do not have insurance or resources to pay for treatment. In addition to the \$41.7 million in general funds, the budget transfers \$68.8 million in federal dollars, \$1.7 million in augmentation revenue from the State Stores Fund, and \$3 million from the Compulsive and Problem Gambling Treatment Fund.

## **DEPARTMENT OF INSURANCE**

The proposed budget does call for a \$4.3 million increase in funding to the Children's Health Insurance Program (CHIP). CHIP provides identical, comprehensive benefits to individuals enrolled in the free, low-cost and full-cost components of the program. Free CHIP covers children in families earning up to 200% of the Federal Poverty Income Guidelines (FPIG). Low-cost CHIP covers those within 200-300% of FPIG, and full cost covers those who earn 300% or more of FPIG.

After the elimination of the adultBasic program last year, 41,000 low-income Pennsylvanians were left without affordable health care. Despite numerous attempts to restore this program and secure an appropriation in the FY 2012-13 budget for it, the proposed budget does not include any funding for this valuable program. At a time when Pennsylvania's unemployment numbers continue to climb upwards, and to hover above the state's unemployment rate from this time last year, programs such as adultBasic were always part of the state's safety net for the working poor and those citizens who had fallen on hard times.

While reducing appropriations to the General Government Operations and CHIP Administration lines, this proposed budget calls for a \$2.5 million increase in the overall Insurance budget over FY 2011-12.

## **JUDICIAL**

The Governor has recommended an appropriation for the Judiciary in the amount of \$298.86 million in the budget for Fiscal Year 2012-2013. This represents an increase of \$12.947 million from the recommended appropriation of \$276.86 for FY 2011-2012.

The Commonwealth's Judicial System includes the Supreme Court, Superior Court, Commonwealth Court, Courts of Common Pleas, Philadelphia Municipal Court, Traffic Court of Philadelphia and the Magisterial District Justices ("MDJ's"). The Administrative Office of Pennsylvania Courts (AOPC) is the administrative arm of the courts. The AOPC provides services for approximately 2100 members of the judiciary and their staffs.

<b>Judicial Department</b>	<b>FY 2012-13 Appropriation</b>
Supreme Court*	\$46,932,000
Superior Court	\$26,415,000
Commonwealth Court	\$16,054,000
Courts of Common Pleas	\$96,850,000
Magisterial District Justices	\$68,690,000
Philadelphia Municipal and Traffic Courts	\$ 6,712,000
Court of Judicial Discipline	\$ 454,000
Judicial Conduct Board	\$ 1,182,000

\*This item includes all rules committees of the Supreme Court, County Court Administrators, Office of the Court Administrator and other items.

The Governor has recommended level funding for the following programs.

- Juror Cost Reimbursement--\$1.085 million.
- County Court Reimbursement--\$33.405 million
- Senior Judge Reimbursement --\$1.335 million
- Gun Court Reimbursement--\$1.276 million
- Court Consolidation--\$1.640 million.

The proposed appropriations for the Judicial Department are enhanced by a surcharge established by Act 49 of 2009. The Act imposed a temporary 25-month surcharge on existing Act 122 (2002) fees established to support the Judicial Computer System and Access to Justice. Although the surcharge was scheduled to expire in January 7, 2012, it was extended 36 months. Consequently, it is scheduled to expire December 31, 2014 by Act 30 of 2011.

An amount of \$10.25 is used to fund judiciary operations, \$1.00 for Access to Justice and a permanent \$2.25 fee for the Criminal Justice Enhancement Account to help support salaries for full-time district attorneys. The fee total is \$13.50.

The following amounts are expected from the following fees:

<b>Account</b>	<b>Fee</b>	<b>FY 2012-13 Estimated Revenue</b>
JCS	\$10.25	\$ 25.09M
CJEA—DA's	\$2.25	\$ 6.46M
ATJ—Legal Services	\$1	\$ 2.50M
Total	\$13.50	\$ 34.05M

## LABOR & INDUSTRY

There are relatively few changes contained within the Governor's fiscal year (FY) 2012-13 budget proposal for the Department of Labor and Industry. Total state funding for the department is set at \$70.5 million for FY 2012-13, down \$1.2 million from FY 2011-12, meaning most of its line items would see little-to-no funding changes over the current fiscal. However, when comparing the numbers for the department in the Governor's proposal to the amounts available to it in FY 2010-11, there are areas that have been dramatically affected.

Take for example the department's Supported Employment line item, which provides intensive job training at the job site for persons with severe disabilities. State spending for this appropriation was only reduced by 5% in the proposed budget over its enacted FY 2011-12 level. However, when this cut is combined with the reduction for FY 2011-12, the Governor's proposal reduces state spending for the Supported Employment line item by 13%, from \$455,000 in FY 2010-11 to \$397,000 for FY 2012-13.

Similarly, funding for the New Choices/New Options program was cut by 58% for FY 2011-12, from \$1.2 million to \$500,000, and has now been eliminated all together under the Governor's proposal. The New Choices/New Options line item assists in providing career and personal development strategies for displaced homemakers, low-income single parents and the unemployed in an effort to help them find employment and achieve economic self-sufficiency.

In addition to these cuts, one might also notice that funding for many state-sponsored job training programs within the department is entirely absent. The Governor will tout that he has reserved \$2.5 million within the department for a new state sponsored job training initiative called "Keystone Works". What he will fail to acknowledge is that funding for the proven and successful PA Conservation Corps and Training activities line items is once again missing in this budget. Nearly \$10 million was reserved for both programs, when combined, in FY 2010-11, before they were eliminated by the Governor and Republican majorities. The Governor and Republican majorities have defended their decision to eliminate funding for these programs by saying that the majority of job training programs in the state are funded on the federal level by the Workforce Investment Act (WIA). While that may be true, the commonwealth's allocation from the WIA has gradually been reduced, and further reductions can be expected for the coming year if budgetary problems on the federal level do not improve.

The funding cuts and program eliminations referenced above are concerning and call into question the direction that this Governor and his administration are taking the commonwealth. At a time when job creation is the foremost issue on the minds of Pennsylvanians, this Governor has chosen to cut into the department's budget, the department mainly responsible for job creation and employment in the state, rather than invest in it. State funding for the department has decreased from \$84 million in FY 2010-11 to \$70 million for FY 2012-13. Even worse is the fact that the Governor and both Republican chambers have yet to acknowledge or fully engage in conversation regarding the Senate Democratic PA Works plan, nor have they offered a clear, comprehensive or effective job's package of their own. As a result, Pennsylvania's unemployment rate still stands at an unacceptably high level of 7.6%, with nearly half a million individuals out of work. Additionally, the unemployment rate still stands above last year's low level of 7.4% (May 2011), when unemployment was on the decline before Governor Corbett's first budget had been introduced.

### **UC Trust Fund Update**

Despite a debt of \$3.4 billion to the Federal Government, the Corbett Administration has continued to do nothing to ensure the long-term solvency of the Unemployment Compensation Trust Fund. Corbett Administration policies have done nothing to curtail the state's unemployment rate and for a time, increased the number of jobless Pennsylvanians.

Republicans have offered plans that would use a bond to clear the debt with the Federal Government, but it was attached to a proposal that would also cut the State Adjustment Factor, saving businesses about \$1 billion over seven years and continuing to ensure that Pennsylvania will stay in debt. Rather than working on legislation that will provide long-term fixes for the Trust Fund and continued benefits, the Republicans continue to work on short fixes. So far these all need to be re-visited every few months in order to ensure Pennsylvanians, who lost their jobs through no fault of their own, continue to receive unemployment benefits.

### **LOTTERY FUND**

The Lottery Fund is expected to emerge from the 2012-13 budget year in satisfactory shape with a balance of \$84.5 million, with an additional \$75 million in reserve to satisfy the needs of the Rent and Property Tax Rebate program. The balance at the end of this current fiscal year will be slightly better at \$113.7 million. Ticket sales for the current budget are expected to increase by about 2.8% from the previous year. The Governor expects ticket sales to grow by about \$48 million or 1.5% in the 2012-13 Fiscal Year.

The Governor also expects expenditures to increase slightly in the upcoming budget year. The funding for Medical Assistance – Long Term Care will increase by \$71.6 million and an estimated \$35.0 million less will be needed for PACE. The funding to provide for the property tax and rent rebate program will result in an additional \$2.2 million needed. Total expenditures from the fund are expected to increase by \$42.7 million or about 2.6%.

## **DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)**

Unlike virtually every other agency and department within state government, the Department of Military and Veterans Affairs has avoided dramatic reductions and cuts to its funding levels since Governor Corbett took office. Most appropriations within the department were level funded for the current fiscal year (FY 2011-12), with even a few areas seeing substantial increases. For the most part, the Governor's budget proposal for FY 2012-13 intends to, once again, maintain department funding over its enacted FY 2011-12 levels, with the following exceptions:

- A decrease of just over \$6.2 million for the state's system of veteran's homes. This decrease lowers the total appropriation for the six state sponsored veteran's homes from the enacted amount of \$93.3 million in FY 2011-12 to \$87.1 million for FY 2012-13.
- An increase of approximately \$400,000 for the department's general government operations (ggo). This increase was added to reflect the Facilities Management and Security appropriation being rolled into, and now funded out of, the department's ggo. The Facilities Management and Security line item was funded as a standalone appropriation in prior years at approximately \$250,000 annually.
- The responsibility of funding "Veterans Assistance" services has been transferred from the General Fund to a new restricted account within the department. Funding for veterans assistance services is proposed to increase and has been set at \$1.7 million within this new restricted account, compared to the \$400,000 that was appropriated to the Veterans Assistance line item in FY 2011-12 when it was a standalone appropriation. Veterans Assistance funding helps to provide temporary relief to eligible veterans in need of financial assistance.

## **MOTOR LICENSE FUND**

The Governor originally estimated that revenues from the Motor License Fund for the 2011-12 fiscal year would be \$2.416 billion. In the 2012-13 budget, the Governor revised that estimate to \$2.408 billion. According to the Governor's adjustments, liquid fuels taxes decreased by \$140,000, motor licenses and fees decreased by \$8.7 million, and other motor license fund revenues increased by \$880,000.

The 2012-13 budget year carries an ending balance from the 2011-12 fiscal year of \$148.6 million. This balance added to the projected revenues for the 2012-13 fiscal year of \$2.434 billion will provide available funds for expenditures for the 2012-13 budget year of \$2.582 billion. The 2012-13 budget plans to expend \$2.507 billion and leave an ending balance of \$74.3 million in the fund.

When only examining revenue from liquid fuel taxes, motor licenses and fees, and other motor license fund revenues, the Department is anticipating a \$25.1 million increase in revenue from FY 2011-2012 to 2012-2013. The change from FY 2010-2011 to the anticipated revenue of 2012-2013 represents a nearly 3.5% decrease in revenue. Gasoline consumption is down due to smaller, more fuel efficient cars, and fees have not been increased to keep pace with inflation.

State police spending increased by over \$4.76 million, or nearly 1%, in the proposed budget to over \$569 million. Motor License Fund support of the state police has increased by about 75% over the last decade.

## **DEPARTMENT OF TRANSPORTATION**

### **Federal Highway Trust Fund**

The future of the Federal Highway Trust Fund is uncertain. The federal Highway Trust Fund collects 18.4 cents of a federal gas tax and 24.4 cents on a gallon of diesel fuel. This money is allocated by the U.S. Congress based on a specific formula. Recent trends have shown the future viability of the trust fund is in jeopardy as revenues have not kept pace with outlays. In the last three years, Congress had to infuse money into this fund from the General Fund to keep it afloat. Congress will need to develop a dependable and stable funding source to address the states infrastructure needs.

## **Highway and Bridge Construction and Maintenance**

In the Governor's Fiscal Year 2012-2013 proposed budget, \$810 million is to be used on Pennsylvania highways for repair, resurfacing, and reconstruction. This is a reduction of \$80 million from current year funding, or a nearly 9% reduction. Pennsylvania has 39,743 miles of roadway to maintain and has the fifth largest state owned roadway network in the nation. Each year PennDot works to repair nearly 4,000 miles of roads. The General Assembly and the Governor have, in the past, directed attention and funding to resolve a large backlog of bridge maintenance needs. This, however, is no longer the case. The Department is anticipating being able to replace approximately 290 structurally deficient bridges in Fiscal Year 2012-2013. This is down from 320 in the 2011-2012 fiscal year and 442 in the 10-11 fiscal year. Also down significantly is the number of bridges per year that are able to be preserved. The Department is anticipating preserving 190 bridges in FY 2012-2013; down from 220 in FY 2011-2012, and 345 in FY 2010-2011. Without more investment into Pennsylvania's highways and bridges, the Commonwealth will continue to lead the nation in the number of structurally deficient bridges.

The Governor's 2012-13 budget flat funds Highway and Safety Improvements at the current year level. PennDot has the responsibility of executing and developing the most critical deficiencies on state highways, including safety and mobility issues. In addition, the Expanded Highway and Bridge program also contributes to Pennsylvania's expanded construction and maintenance program. The Governor is projecting that this program will be funded at \$165 million. The rejection of tolling Interstate 80 lowered this appropriation significantly.

## **Funding Crisis**

Pennsylvania's transportation facilities have long been a key component of economic strength and vitality for many decades. Today, much like the rest of the nation, Pennsylvania's transportation infrastructure is declining at a rapid pace due to decades of underinvestment. With an emphasis on energy conservation, vehicles will continue to become more fuel efficient, which in turn means less money available to build and maintain highways and bridges. Repairs for agencies providing transit services within the Commonwealth have been put off while a search for a stable funding source continues.

To address the growing gap between the funding necessary to bring Pennsylvania roads up to adequate condition and the current funding, Governor Corbett established the Governor's Transportation Funding Commission (TFAC) on April 21, 2011. The TFAC was tasked with finding \$2.5 billion in additional, sustainable resources over a five year period to allow time for a gradual increase in fees. The current need for additional funding is at \$3.5 billion, and that grows each year.

The TFAC held five meetings in Harrisburg from April to July 2011. In August 2011, the TFAC made their recommendations public. When developing the recommended funding package, TFAC was directed not to consider: raising the flat gas tax at the pump, leasing the PA turnpike to generate revenue, or assumptions of any additional non state-controlled resources, or changes in federal assistance or law.

The TFAC came up with a funding package that raised over \$2 billion in revenue through various methods, with the large portion being raised by removing the cap on the Oil Company Franchise Tax. To date, Governor Corbett has yet to state which, if any, of the recommendations made by the TFAC he supports.

### **Transit Programs**

Mass transit programs are now funded directly through the Public Transportation Trust Fund which helps shelter them from budget cuts necessitated by the economic downturn. Primary revenue sources for the Public Transportation Trust Fund are a 4.4% share of the state sales tax, payments from the PA Turnpike Commission, and transfers from the Lottery Fund. The Governor is anticipating carrying a balance of \$109.9 million over from the current fiscal year into 2012-13 and ending FY 2012-13 with a balance of \$35.6 million.

Of note, is the elimination of funding for the Rail Freight Assistance line item. This line is funded at \$5.75 million in the current year budget. This program provided grants to private railroads, companies utilizing rail in their shipping process, and public authorities or municipalities that are conduits for rail activities. The benefits from these programs include economic development, environmental quality, less congestion on highways, and land use opportunities.

Lottery Fund supported Shared Ride funding is budgeted to increase modestly by \$1.98 million to total \$81 million in the proposed budget. Dedicated mass transit revenues, state capital support and Lottery Funded Shared Ride appropriations will make more than \$1 billion available for mass transit programs during the 2012-13 fiscal year.

### **STATE POLICE**

The General Government Operations line item provides for many different programs. The GGO line provides for management, traffic supervision, crime prevention, criminal law enforcement, and emergency assistance. It also provides for the administration programs that maintain the state trooper complement. The 2011-12 budget allocated \$174.6 million from the General Fund; and it received \$524.6 million from the Motor License Fund. However, in the 2012-13 fiscal year, the Governor is proposing \$176.6 million in the General Fund and \$529.8 million from the Motor License Fund.

The Governor is recommending that \$7.9 million be provided to fund a cadet class of 115 cadets. The cadet class is needed in order to maintain a complement level close to the current fiscal year.

The Governor's 2012-13 budget proposes that the Motor License Fund retain 100% of the vehicle fine revenue generated in municipalities where the State Police serves as the primary police force and that 50% of these funds be restricted for the acquisition and upgrade of radio communication equipment by the State Police. He is anticipating \$8 million will be available for radio system communications.

The Governor is requesting a \$3.27 million increase in the Gaming Enforcement line item over the current year budget. This represents a nearly 20% increase. The State Police responsibilities include investigating and prosecuting criminal infractions, conducting various background checks, and providing overall law enforcement services at Pennsylvania gaming facilities. He is also requesting a \$394,000 increase in Liquor Control Enforcement, or an increase of 1.6%.

## **PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY**

The Emergency Management Agency (PEMA) is set to receive a proposed \$10.8 million in state funds for the 2012-2013 Fiscal Year. The Red Cross Extended Care Program line item is eliminated. This was slated to be eliminated in last year's budget proposal, but was restored in the final budget.

PEMA is an agency that receives the majority of its funding through federal money, the bulk of which is an anticipated \$180 million for Domestic Preparedness-First Responders, and \$21 million for Civil Preparedness. Both of these items are funded at the same level as FY 2011-12. It should be noted that the Hazardous Material Planning and Training has been increased from almost \$700,000 to \$1.4 million.

In other funds, PEMA is set to receive \$118.3 million from the Wireless E-911 Emergency Services Fund, a decrease of \$2.1 million. Also, they are slated to receive \$25 million from the State Gaming Fund via Executive Authorization and \$17.5 million from the Volunteer Companies Loan Fund. Both of these amounts are the same as the 2011-12 fiscal year.

The Office of the State Fire Commissioner is faced with a proposed cut of \$105,000, but \$250,000 has been proposed for both a Volunteer Fire Department Loan and Grant program for a total of \$500,000.

The Commonwealth will also receive \$60 million in federal funds for Storm Disaster Relief for storm damage in 2011.

PEMA's General Fund budget total, including federal funds, is \$316 million.

## PUBLIC UTILITY COMMISSION

The Governor has recommended an appropriation from restricted revenues for the Public Utility Commission in the amount of \$1.5 million in the budget for Fiscal Year 2012-2013.

The Public Utility Commission regulates approximately 8,000 utilities which provide electricity, natural gas, steam heat, water, wastewater collection and disposal, telephone, transportation of passengers and property by train, bus, truck, taxicab and limousine and transmission of gas and oil by pipeline.

The Commission is funded by assessments of public utilities. Public utility assessments and fees are deposited into a restricted account within the General Fund.

As part of the Commission's regular responsibilities, it must implement, on a continuing basis several major laws: Act 201 of 2004 regarding the termination of electric, natural gas and water service; Act 213 of 2004 requiring the inclusion of electricity generated from alternative energy sources in the retail sale of energy to consumers; Act 183 concerning network modernization plans, deployment of high-speed internet service and the reduction of filing and reporting requirements for the Incumbent Local Exchange Carriers; and Act 129 of 2008 regarding the reduction of electricity consumption.

Most recently, the passage of Act 127 of 2011 authorizes the Commission to enforce Federal pipeline safety laws as pertaining to non-public utility gas and hazardous liquids pipeline equipment and facilities within the Commonwealth. This required an increase in the complement of pipeline safety inspectors. Consequently, there was an increase of the appropriation from the restricted account for general government operations:

General Government Operations	2010-11 Actual	2011-12 Available	2012-13 Budget
	56,003	58,898	60,398

(amounts in thousands)

## DEPARTMENT OF REVENUE

The Department's general government appropriation would receive a large cut of nearly \$8 million. This amount does represent a 6% decrease in the general government operations of the Department from the current year. The Governor is anticipating \$21 million more in revenue collections by allowing the Department's agents to attach bank accounts of delinquent taxpayers and withhold more taxes at the source. Exactly how this will all be accomplished with fewer resources is not clear.

The Governor continues to show support for the technology appropriation which would equal \$20.4 million, which is \$1 million less than the level in the current budget. This is the fourth year of a six year plan to replace the Department's aging mainframe computer.

## **DEPARTMENT OF STATE**

The Department of State receives the bulk of its funding through appropriations from restricted revenue accounts, which are funded through various registration and licensing fees. Of the department's \$100 million operating budget, less than 10% of that comes from the General Fund. This budget proposes \$8.8 million for the Department of State for FY 2012-13, this is a decrease of \$1.3 million. This cut is mostly due to reapportionment costs incurred in FY 2011-12 that do not recur in FY 2012-13.

Additionally, the proposed budget does call for an increase of half a million dollars for the Statewide Uniform Registry of Electors to keep up with regulations and mandates of the program.

## **STATE STORES FUND**

The State Stores Fund is the general operating fund for the Liquor Control Board ("LCB"). The fund receives revenues from a number of sources including the sale of goods in State Wine and Spirits Shoppes, fees not credited to the Liquor License Fund, and fines and penalties imposed on licensees. Expenditures cover all costs associated with the operation and administration of the system and enforcement of the Liquor Code.

In Fiscal Year (FY) 2012-13, State Store Fund expenditures by the LCB will include the transfer of over \$436 million in liquor tax and sales tax revenue to the General Fund. Additionally, the LCB will transfer \$80 million in profits to the General Fund.