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## GENERAL FUND

### 2011-2012 Fiscal Year

The fiscal year that is just ending was not near as dire as the Governor predicted in December and reiterated in February when he presented his budget. Tax collections ended up only \$200 million short of the official estimate, not \$718 million as he was predicting in February. This shortfall is .7% off the official estimate. If the administration had correctly predicted the loss of revenue from their own self-imposed bonus depreciation they handed out then revenues would have reached the estimate. It is clear that the Governor's placing of \$160 million in budgetary reserve in January was also unnecessary as the ending surplus for the General Fund is \$680 million.

### 2012-2013 Fiscal Year

#### **Revenues:**

Next fiscal year's budget anticipates revenue growth from existing taxes of 3.7% or \$760 million, which is a reasonable growth estimate for a recovering economy. A portion of this growth, about \$128 million, is from the proposed revenue enhancements that the Governor introduced as part of his budget. The items will be detailed in the tax section of this report.

#### **Expenditures:**

The Final budget agreement contains expenditures of \$27.656 billion for the 2012-2013 fiscal year. That is an increase of \$524 million over the Governor's February budget proposal and the same amount as was passed by the Senate in May. The increase is also 2.4% over the 2011-12 expenditure level.

Below is a simplified balance sheet (financial statement) that shows the general fund for the budget agreement:

	(Dollars in Millions)
Beginning Balance:	\$756
Net Tax Revenues	<u>\$27,301</u>
<b>Funds Available</b>	<b>\$28,057</b>
Expenditures	\$27,656
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<b>Ending Balance</b>	<b>\$401</b>

The remainder of this report will provide the details of the budget agreement. The report highlights each agency's proposed spending cuts or increases that build the budget that will be enacted today.

## 2012-2013 TAXES

While the Governor has not certified an official revenue estimate yet, this budget is dependent on expected revenues very close to the predictions of the new Independent Fiscal Office (IFO). In early June the IFO estimated that revenues would be \$28.6 billion which includes an anticipated \$100 million of increased tax collections from enhanced revenue collection efforts. The other tax changes included in House Bill 761 are listed below and on the table on the next page.

### 1. Increased tax collection powers:

- Allow for attachment of bank accounts for delinquent taxes greater than \$1,000
- Requires that 1099s be sent to the Department of Revenue for distributions to pass through businesses for out of state owners
- Expand the Department's citation power to businesses without a sales tax license

### 2. Changes to Taxation:

- Amends the definition of "processing" to include "the collection, washing, sorting, inspecting, and packaging of eggs," which provides an exemption from the sales tax for the materials purchased for this process
- Adds volunteer firefighters' relief organizations to the sales tax exemption and makes for a permanent exempt status to be granted to volunteer firefighters' organizations or volunteer firefighters' relief organizations until the Department of Revenue ascertains that the organization no longer qualifies
- Provides a sales tax exemption for a charge for wrapping or packaging if the wrapped item is being resold
- Eliminates the requirement for semi-monthly filing of sales tax returns by vendors that collected more than \$25,000 in a third quarter of the previous year and now all vendors that collected more than \$600 in the third quarter of the previous calendar year will file monthly returns
- Permits for the surviving spouse to file a single tax return for the year in which a spouse dies
- Requires any person that files a Federal 1099-MISC form to also file the form with the Department of Revenue to better track the payments for oil and gas lease payments and royalties, and provides penalties if the form is not filed
- Changes the definition of "taxable income" to provide for the use of a 100% single sales factor in the calculation of the CNI apportionment

- Amends the definition of “family farm corporation” to “family farm business” and provides an exemption from the realty transfer tax when a family member transfers agricultural property to a family farm business or from one family farm business to another when the family owns 75% or more of the business
- Provides an exemption from the realty transfer tax for property transactions between stepparent and stepchildren
- Closes the so-called “89-11” loophole for building transfers under the realty transfer tax
- Creates a tax credit for manufactures utilizing ethane from natural gas as a feedstock. This is the so called cracker plant tax credit. The credit will be for 5 cents per gallon of ethane purchased and will be capped at \$66 million annually. The tax credit will not be available until a taxpayer spends \$1 billion in construction and has created 2,500 construction jobs. Under the timeline, the first credit will be available in the 2017 fiscal year
- Expands the powers of the Secretary of Revenue to reach more compromises in taxpayer disputes
- Allows for LLC’s to be utilized by family farm businesses and avoid the realty transfer
- Improvements to the Film Tax Credit are:
  - a. Expands the credit to productions at Sound Studios
  - b. Adds the insurance premiums tax and the bank shares tax to the list of taxes that the credit can be used to off-set
  - c. Changes the criteria for awarding credits from first received to considering film with largest budget, most employees, number of pre or post production days in state
- Lowers the number of retail cigarette outlets that a cigarette stamping agent must have and still qualify as a wholesaler from 5 to 3 outlets.
- Increases the amount of credit for hiring an unemployed person under the New Jobs Creation Tax Credit. DCED would also be given the authority to have multiple year commitments but distribute all the money at once.
- Adds Food Banks to the list of acceptable charities that a taxpayer can donate to and participate in the Neighborhood Assistance Tax Credit Taxpayers donating to food banks would receive special consideration for available tax credits
- Transfers of Agricultural businesses between extended family members would be exempt from the inheritance tax

## DEPARTMENT OF EDUCATION

A top budget priority for our caucus was to increase funding to our school districts and restore funding for those education programs that have a proven track record. The final budget agreement includes an additional \$39 million for the basic education subsidy line, direct funding targeted to financially distressed school districts. In addition, \$100 million in Accountability Block Grants (ABG) has been restored. The program provides funding for programs such as pre-kindergarten, full-day kindergarten, and class size reduction. Governor Corbett had proposed elimination of the program.

The budget agreement includes \$10 million for a Financial Recovery Transitional Loan Program to provide loans to school districts in financial recovery status that have approved a financial recovery plan. Loans will be free from interest and be repayable based on a predetermined schedule, and are to be used to implement provisions of the financial recovery plan.

While the legislature stood up to Governor Corbett and insisted on increased funding for our struggling school districts as well as restoration of funding for the ABG, we cannot lose sight of the devastating cuts that school districts faced in the prior year of close to \$1 billion, forcing local school boards to raise taxes or cut programs and furlough staff. In a survey of school districts released in May by the School Boards and School Administrators associations, the effects of these cuts have been significant:

- Nearly half of the 281 districts responding say that financial distress is anticipated within three years if state and local funding does not improve; 3% of districts reported that they are already in such distress
- Districts anticipate using three times more fund balance in 2012-13 as used for the current year. About one-in-five districts had diminished their excess funds by 50% or more in the last two years.
- Class sizes will increase in about 60% of the districts surveyed.
- Students in 58% of districts will face reduced instruction in art and music, reduced physical education classes, and fewer elective and advanced placement course offerings. Nearly half of the districts are delaying textbook purchases.
- 46% are trimming or eliminating field trips and extra-curricular programs, including sports. 37% are cutting tutoring programs and 34% are eliminating summer school. Research-proven early childhood education programs such as full-day kindergarten will be reduced or eliminated in 19% of responding districts.

The General Government Operations appropriation 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. The department estimates that the number of pupils with disabilities enrolled in special education programs will be 269,500 in 2012-13. The budget flat-funds the special education line, at \$1.027 billion. Pending legislation (SB 1115) sets up a commission to make recommendations for special education funding for future year allocations above this amount.

Funding for Approved Private Schools will receive a \$700,000 increase to fund an additional school which has been approved by PDE. Chartered Schools for the Deaf and Blind receive an increase of \$750,000.

At the start of the 2007-2008 school year, students attending Duquesne High School transferred to either East Allegheny School District or West Mifflin School District on a tuition basis. School Code provisions remove the current 165-student cap, increase the per student tuition amount, add \$500 per new student transition funding, and add 7<sup>th</sup> and 8<sup>th</sup> graders for reassignment. A supplement of \$2.5 million is included in the budget to support the remaining Duquesne education programs.

Early Childhood Education programs are funded in both PDE and DPW. The budget agreement restores \$4.1 million in PDE for the Pre-K Counts program. 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 restores \$1.9 million for the Head Start Supplemental Assistance, which expands Pre-K services to eligible children. The final budget increases funding for Early Intervention which provides services and support for children with developmental delays. The funding increase of \$8 million will expand services to 1,500 additional children from ages 3 to 5.

The budget restores \$2.7 million to the Public Library Subsidy. 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.

## **PLANCON**

For FY 2012-13, as proposed by the Governor, the budget includes a limitation on PDE's acceptance or approval of new school building construction or reconstruction project applications received after October 1, 2012, and requires PDE to conduct a review of its school building project approval process and submit recommendations by May 1, 2013. Existing projects already in the PLANCON process will not be impacted.

## **Teacher Evaluations**

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

House Bill 1980 (enactment pending) includes for the first time, measures of student performance in criteria used to rate teachers and principals. It establishes a framework for an evaluation system that relies 50 percent on objective measures and the other 50 percent on classroom observation. It would take effect in 2013-14 for teachers and in 2014-15 for principals. The measure prohibits an educator from being rated unsatisfactory solely on the basis of test scores, and also prohibits an educator from being dismissed unless the observation specifically identifies deficiencies in classroom practice, thereby ensuring that test scores are not the sole reason for dismissal.

### **Charter/Cyber Charter Schools**

A Charter School reform proposal is still pending enactment. Some of the provisions included are: the creation of a Charter School Entities Funding Advisory Committee; the creation of a State Charter School Entities Assessment Account; providing for direct payment from PDE; applying the State's Adverse Interest Act and Ethics Act to all charter school and cyber charter school board trustees and employees; prohibiting conflicts of interest and requiring annual ethics filings; development of an academic performance matrix; requiring annual independent audits of charter and cyber charter schools; limits on the amount of unassigned fund balances; and permitting charters to have an initial five year term -- upon renewal, the term of the charter is ten years.

### **EITC/EISC**

The budget agreement includes raising the cap on the total tax credits available each year to businesses participating in the Educational Improvement Tax Credit (EITC). In addition, a companion program for students from the lowest-achieving 15% of public schools, the Educational Improvement Scholarship Credit program (EISC), is being considered but still pending enactment. The traditional EITC program will receive a \$25 million increase in available tax credits (bringing the total available to \$100 million) and the new EISC would have \$50 million of available tax credits available.

### **Financially Recovery**

House Bill 1307, which is awaiting the governor's signature, develops an early warning system for financially distressed school districts and creates moderately and severe financial recovery classifications. Districts (currently 4 and never more than 9) will be assigned a chief recovery officer and will implement a financial recovery plan. They will be eligible for an interest free loan program.

## **HIGHER EDUCATION INSTITUTIONS**

In the final budget, the legislature was able to restore \$260.47 million (state funds and PHEAA business earnings) in overall funding for higher education institutions and programs including 2 year and 4 year, both private and public, which Governor Corbett reduced in his proposed budget in February.

The Administration has created an Advisory Commission on Postsecondary Education to assess higher education programs and business needs and to make recommendations related to the establishment and maintenance of a responsive postsecondary education system for the 21st century to serve the students and citizens of this commonwealth. A final report to the Governor is due by November 15, 2012.

### **Community Colleges**

Community Colleges will be funded at the same level as the prior year. The final budget agreement maintains the Senate restoration of the 5 percent reduction (\$10.6 million) that Governor Corbett proposed. Available funds for capital projects are increased \$1.5 million to \$47.87 million. In addition, funding for Regional Community College Services has been increased over the prior year and will include \$1.2 million, a portion of which is allocated for Allegany College of Maryland which serves students in Bedford and Somerset Counties. Governor Corbett had eliminated this funding in his proposed budget.

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

The final budget agreement maintains the Senate restoration of the 20 percent reduction in funding that Governor Corbett proposed, or a total restoration of more than \$82.5 million. In return for the full restoration, the Chancellor has made a commitment not to increase student tuition in the next academic year above the inflation rate.

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 budget agreement restores approximately \$8.4 million of PASSHE's share of the Keystone Recreation, Park and Conservation Fund, used for deferred maintenance projects. The Governor had proposed transferring these funds to the general fund.

The Resources Development Act (SB 367- enactment pending) authorizes the Department of General Services to execute contracts, leases, or conveyances for the removal of coal, oil, natural gas, coal bed methane, and limestone beneath land that is owned or controlled by the Commonwealth or by the State System of Higher Education.

Payments received for transactions on land owned by PASSHE must be used for deferred maintenance projects and/or energy efficiency/cost savings improvements and are deposited as follows:

- 40% retained by the host University
- 60% to the SSHE for distribution among non-host universities
  - 15% of the funds distributed to the host university and PASSHE must be used exclusively for tuition reduction

Although funding was restored in the final budget agreement from the Governor's harsh cuts, it should not be overlooked that funding for higher education has been basically flat funded over the past ten years. In 2002, PASSHE received \$471 million from the state, and in 2011 it received \$503 million, including federal stimulus dollars. PASSHE has a mission to provide access to the students of the commonwealth and state support allows in-state tuition to be reduced.

The 18 percent reduction in the state appropriation for the 2011-12 fiscal 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 final budget agreement maintains the Senate restorations of the Governor's proposed budget cuts of 30 percent (\$147 million) in funding for the state-related universities, specifically the Pennsylvania State University, the University of Pittsburgh, and Temple University. The Governor did not propose a reduction for Lincoln University. The four state-related universities will be funded at their prior year funding levels.

In return for the full restoration, the university presidents have made a commitment not to increase student tuition in the next academic year above the inflation rate. The state-related universities use the state appropriation to reduce tuition charged to in-state residents.

### **University of Pennsylvania**

The final budget agreement restores funding for the University of Pennsylvania Veterinary School and Center for Infectious Disease to prior year levels. The Governor had proposed a 5 percent reduction in funding. In addition, Governor Corbett's February budget proposal recommended appropriating funds for the Race Horse Development Fund for these lines. The final budget appropriates uses General Fund monies to fund these institutions.

**PLEASE NOTE THAT INCLUDED AT THE END OF THIS REPORT IS A FUNDING CHART FOR THE NON-PREFERRED INSTITUTIONS**

**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 the 2012-13 fiscal year, the total amount of funding that will be available for student grants is \$419.88 million, which includes \$344.88 million in state funding and \$75 million that the PHEAA Board of Directors will direct from its business earnings to supplement the State Grant Program. In the prior year a total of \$430.94 million was available for the program.

It is anticipated that the number of eligible grant recipients for fall 2012 will be 180,000. The enacted funding amount will allow the number of grants awarded to remain unchanged and the maximum grant amounts to remain at \$4,348.

**Institutional Assistance Grants**

The final budget agreement restores funding for the Institutional Assistance Grants (IAG) line, which provides assistances to higher education institutions that do not receive other state funds. It will be level funded at \$24.39 million. The Governor had recommended a 30 percent reduction. 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 will be \$669.

Funding was restored to prior year levels for Bond Hill Scholarships and the Cheyney Keystone Academy.

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

- Matching Payments for Student Aid
- Higher Education for the Disadvantaged
- Higher Education of Blind or Deaf Students (reduced 4.1%)

## Targeted Industry Cluster Certification Scholarship Program

As proposed by the Governor, and funded by \$5 million from PHEAA business earnings, the budget includes a new Targeted Industry Cluster Certification Scholarship Program which will provide grants to students enrolling in targeted industry certification programs that are less than 2 years. Grants to students seeking skills/trade certification in programs of study that train individuals for areas of immediate workforce need (this would include union apprenticeship programs) will be made. Students in programs that are less than 24 months are currently not eligible for financial aid through PHEAA and most other federal programs.

## DEPARTMENT OF PUBLIC WELFARE

The Commonwealth's General Fund total expenditures will increase by \$470.7 million or 1.7% and DPW's General Fund spending will increase by \$35.027 million, which is less than 1%.

### Medical Assistance

During FY 2012-13, 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 (amounts in Thousands)**

	FY 11/12	FY 12/13	Difference
Outpatient	\$ 645,095	\$ 346,883	(\$298,212)
Inpatient	\$ 325,685	\$ 204,667	(\$121,018)
Capitation	\$3,330,457	\$3,780,674	\$450,217
LTC (all)	\$ 965,614	\$ 1,016,307	\$ 50,693
Medicare Part D	\$ 473,612	\$ 510,915	\$ 37,303
Total	\$5,740,463	\$5,859,446	\$118,983

### **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 is no cost savings included in the FY 2012-13 budget due to implementation delays. A full year cost savings will be realized in FY 2013-14. Access Plus will be eliminated July 1, 2012.

The budget does not provide for any additional funds for managed care rates in the Medical Assistance Capitation appropriation; however, the actual rates paid to managed care plans will ultimately depend upon the recommendation of the actuary responsible for certifying that the Commonwealth pays actuarially sound rates.

## **Medical Assistance - Inpatient**

The legislature added \$5.2 million in state funds to continue hospital payments for health newborns, rejecting the Act 22 regulation implemented by the Department of Public Welfare which, effective May 1, had eliminated Medical Assistance reimbursements to hospitals for nursery care provided to healthy newborn babies. Although the 4% rate reduction was restored for the hospitals, an offsetting \$24 million was reduced from adjusting CMI payments, resulting in a net loss in hospital payments.

Temple University Hospital access to care funding of \$7.1 million and the Mercy Hospital of Pittsburgh Access to Care funding was restored to \$0.750 million in state funds.

## **Supplemental Hospital Payments**

The Governor proposed a 10% cut to Trauma Centers, Burn Centers, Obstetric/Neonatal Service, and Critical Access Hospitals. The Legislature restored funding to the FY 2011-12 level for Trauma Centers, Burn Centers and Obstetric/Neonatal Services. The Critical Access Hospitals received \$0.500 million above the FY 2011-12 appropriation.

## **General Assistance**

The Senate GOP supported the Governor's proposal, eliminating the safety net for more than 69,000 Pennsylvanians.

The Senate Republicans support the changes to the criteria used to determine the eligibility for the two groups of chronically ill adults – the “categorically needy” and the “medically needy” that qualify for Medical Assistance through the state funded General Assistance program.

For the “categorically needy” adults, the vast majority who have a temporary disability that qualifies them for MA benefits, the Senate Republicans support changes that tighten the standards and process used to determine whether 88,000 adults have a qualifying temporary disability that allows them to receive MA benefits.

For “medically needy” adults, the Senate GOP support expanding the requirement that these chronically ill adults work at least 100 hours per month in order to maintain their MA benefits. The existing Public Welfare Code applies this 100 hour per month work requirement only to 3,800 non-custodial parents age 21 through 58 and currently exempts about 10,000 custodial parents with dependent children as well as 3,700 adults age 59-64.

<b>Department of Public Welfare Cuts</b>	<b>Gov Proposed Cuts</b>	<b>SB 1466 Cuts</b>
<p><b>Human Services Block Grant Proposal</b></p> <p>This initiative combines several county administered programs into one grant giving counties more flexibility in that area.  <b>The Legislature restores funding cut to 10%. Whether a “pilot” block grant proposal will be part of the final budget is still undetermined.</b></p>	\$168.4	<b>\$84.2</b>
<p><b>General Assistance Program Cuts</b></p> <p>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.  <b>This remains part of the budget.</b></p>	\$319.2	<b>\$319.2</b>
<p><b>Hospital and Nursing Home Rate Cuts</b></p> <p>Savings generated from a 4% reduction to provider reimbursement rates to hospitals and nursing facilities.  <b>The Legislature restores this rate reduction. There will be no rate reduction to hospitals or nursing homes.</b></p>	\$58.9	<b>\$0.0</b>
<p><b>Hospital Application Process</b></p> <p>Savings generated from maintaining recipients enrolled through the hospital application process in the fee-for-service program until redetermination  <b>This remains part of the budget.</b></p>	\$10.0	<b>\$10.0</b>
<p><b>Child Care Reimbursement Cut</b></p> <p>Savings generated from a reduction in the number of paid absences and a decrease in the reimbursement rates for unregulated relative and neighbor care. In addition to the Governor's reduction, the Senate GOP proposed an additional \$8.720M reduction to the Keystone Stars program.  <b>The rate reductions are included as part of the budget. The budget restores \$4M of the \$8.7M cut proposed by the Senate GOP.</b></p>	\$18.7	<b>\$14.7</b>
<p><b>High-Cost Case Review</b></p> <p>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.  <b>This remains part of the budget, but savings estimates on this proposal have been reduced.</b></p>	\$45.0	<b>\$30.0</b>
<p><b>Audit Enhancements</b></p> <p>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.  <b>This remains part of the budget.</b></p>	\$5.0	<b>\$5.0</b>
<p><b>Extend Coverage for Foster Care Children Past the Age of 18</b></p> <p>Provides foster care enhancements that will increase the rate of adoption as well as draw down additional IV-B dollars.  <b>This remains part of the budget.</b></p>	\$4.5	<b>\$4.5</b>
<p><b>MAWD Premium Increases</b></p> <p>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.  <b>This remains part of the budget.</b></p>	\$10.0	<b>\$10.0</b>
<b>TOTAL DPW CUTS</b>	<b>\$639.7</b>	<b>\$477.6</b>

## **Intellectual Disability Waiver**

The funding for this waiver has been increased by \$65.022 million over the FY 2011-12 funding level. This includes an increase of \$48.8 million above what was proposed in the Governor's budget. The legislature added \$17.8 million to address the 700 special education graduates and 430 individuals with aging caregivers who are currently on the emergency waiting list for this program. The Governor proposed a savings of \$17 million in high cost case reviews in this program. The legislature has added back \$15 million of that cut.

## **Adult Protective Services**

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

## **Human Services Funding**

County Child Welfare Needs Based Budget funding will increase by \$48.5 million in FY 2012-13. The funding for the Nurse Family Partnership, Rape Crisis and Breast Cancer Screening programs will be maintained at the FY 2011-12 funding level. The Domestic Violence appropriation received an additional \$0.300 million in funding over FY 2011-12. This increase will assist with those individuals losing their services through the General Cash Assistance program.

Child Care Assistance remains level funded with the exception of the savings associated with paid absences and rate changes for the Relative/Neighbor providers. Child Care Services reflects a reduction due to the savings associated with paid absences and rate changes for the Relative/Neighbor providers as well as a \$4 million reduction to the Keystone Stars program.

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

The Governor had proposed the combination of several county based service appropriations into one Human Services Development Fund Block Grant. This new block grant would have combined 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.

These appropriations will remain seven separate funding sources to be administered by the counties. A ten percent reduction from the FY 2011-12 funding level is included. The status of a "pilot" block grant proposal as part of the enacted budget is still undetermined.

## EXECUTIVE OFFICES

The final budget agreement 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 set at \$157.7 million, representing an increase of less than 1% from FY 2011-12 spending levels. 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:

- 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.
- For FY 2012-13, a total allocation of \$2 million for the Office of the Receiver for the City of Harrisburg, representing an increase of \$1 million over the prior fiscal year.
- A cut of approximately \$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 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, the exact amount is not specified in the final agreement, causing some speculation as to what sort of impact this transfer will have. As a standalone appropriation, funding for the Office of the Public Liaison was set at \$338,000 in FY 2011-12.
- The Public Employee Retirement Commission will continue to be funded under the Governor's Executive Offices as an independent body. In his budget proposal, the Governor transferred the responsibilities of the Commission to the Department of Economic and Development, raising concerns over the Commission's continuing objectivity. The Commission is charged with developing the actuarial studies of all pension legislation considered by the General Assembly. Funding for the Commission is set at \$710,000 for FY 2012-13, slightly above the \$690,000 that was appropriated to it in FY 2011-12.
- A 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 cut reduces funding for the appropriation by 5%, down to \$16.4 million.

- Funding for the Statewide Public Safety Radio System has been moved from the Governor's Executive Offices to the State Police. The final agreement level funds the system at \$6.7 million.

## **ROW OFFICES**

### **Auditor General**

In the final budget agreement for fiscal year (FY) 2012-13, the Office of the Auditor General will see no significant changes over FY 2011-2012 funding levels with the following exception:

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

### **Attorney General**

The Office of Attorney General (OAG) received a total appropriation of \$78.12 million in the FY 2012-13 budget. This represents an overall decrease in funding of \$3.27 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 8%. 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 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 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 \$53 million or 5%. In the Governor's proposed budget, released in February, the increase was expected to be \$73 million.

## **DEPARTMENT OF AGING**

### **Family Caregiver Support**

The Family Caregiver Support Program appropriation from the lottery fund will remain at the prior year's funding level, under the enacted 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 the 2012-13 Fiscal Year (FY).

### **Pre-Admission Assessment**

Funding for the Pre-Admission Assessment Program is maintained in the final 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 enacted budget 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 enacted budget reflects a decrease of \$35 million in funding for FY 2012-13 when compared to the prior fiscal year. The PACENET total prescriptions per year decreased in FY 2011-12 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 called for some changes to the Department of Agriculture's funding lines. The funding for PA Fairs, the University of Pennsylvania Veterinary School and Center for Infectious Disease and Transfer to Agricultural College Land Scrip Fund Restricted Account were all to be moved to the Race Horse Development Fund. This shift in funding would have accounted for about a \$75 million reduction in General Fund money to the department.

This shift did not happen and the line items for The University of Pennsylvania and Transfer to Agricultural College Land Scrip Fund Restricted Account were all level funded. The funding for the Pennsylvania Fairs was eliminated from the Department of Agriculture budget.

In the department's proposed budget, many line items had been slated to be level funded or face slim cuts. The lines for Agricultural Excellence, Agricultural Research, Agricultural Promotion, Education, and Exports, Hardwoods Research and Promotion, Livestock Show, Open Dairy Show and Food Marketing and Research all faced elimination, but the final agreement restores them to FY 2011-12 funding levels. Together these account for \$2.3 million in FY 2011-12 and 2012-13, and about \$3.6 million in FY 2010-11.

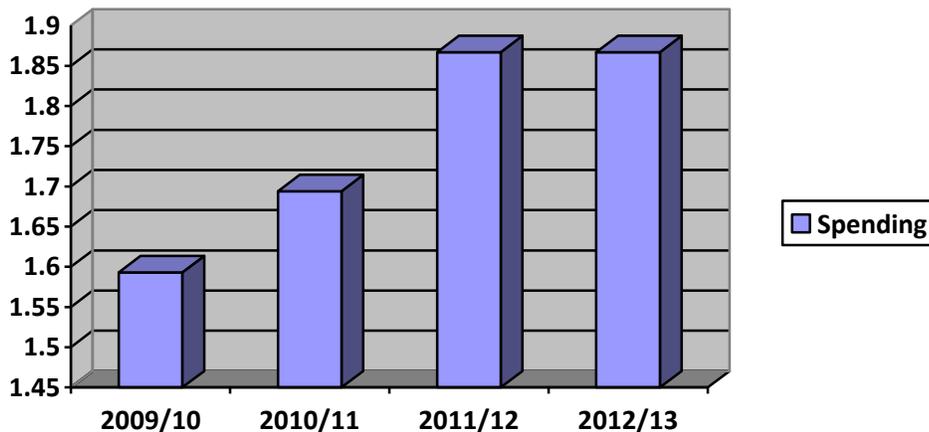
## DEPARTMENT OF CORRECTIONS

### FY 2012/2013 Budget

#### State Correctional Institutions and Community Correction Centers

In the enacted 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 enacted budget contains an increase of \$21.3 million for the institutional system, which houses an offender population that stands at 51,558 inmates as of May 31, 2012. Of this population, 48,671 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. They also anticipate \$13 million in savings through a nonrecurring FY 2011-12 budgetary freeze amount. However, \$81 million is needed to continue the current programs.

Senate Bill 100 was passed along with the budget this year. This bill will make sweeping changes to the way Pennsylvania handles non violent criminals, something Senate Democrats have been advocating to enact for years. The bill calls for paroling inmates in a timely way, sending non-violent offenders to county facilities and making more use of boot camps. A community re-entry program in the bill focuses on using inmates' best skills to help them find employment when they're released.

## **Medical**

The enacted budget expects a \$21.3 million decrease in inmate medical care in FY 2012-13. 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 enacted FY 2012-2013 budget, there is 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**

The Department of Community and Economic Development's (DCED) Fiscal 2013 General Fund appropriation totals \$237.7 million. This funding level represents a 12% increase from the Governor's proposed budget. This increased funding includes multiple funding restorations as compared to the Governor's proposed spending plan. DCED is tasked with providing vital business expansion and retention services to Pennsylvania's business community and is responsible for the creation of thousands of jobs throughout the Commonwealth. Moreover, DCED provides technical support and other services critical to the sustainability of Pennsylvania's local governments. Despite the Department's proven successes, DCED has seen its budget nearly halved since fiscal year 2008.

DCED's General Government Operations (GGO) line item is funded at \$15.9 million, which represents a .6% increase over the Governor's proposed budget. This funding level includes the transferring administration of the State Tax Equalization Board (STEB) into DCED. The funding for STEB is also transferred into the GGO line item.

In Fiscal 2012, DCED embarked on an effort to consolidate programs perceived to be redundant, inefficient or otherwise ripe for merger. These efforts have resulted in an aggregate decrease to the number of programs administered by the Department. The newly consolidated programs are designed to be more user-friendly and accessible to businesses and communities alike. The Governor's proposed funding reductions for these programs, however, would have created a situation in which the Department's ability to provide support to highly qualified and viable projects across the Commonwealth would be severely limited. The final enacted budget includes funding for the Pennsylvania First program at a level of \$29.5 million, which represents an 18% increase from the Governor's proposal. Funding for the Keystone Communities and Discovered in PA, Developed in PA programs remained consistent with the Governor's proposal at \$10.8 million and \$9.9 million respectively.

Funding for the Marketing to Attract Tourist line item was increased by over 93% to \$5.8 million from the Governor's proposal and the Early Intervention for Distressed Municipalities line received a similarly large increase from \$785 thousand to \$1.7 million.

The Homeowners Emergency Mortgage Assistance Program (HEMAP) that is funded through the Pennsylvania Housing Finance Agency will not receive state funding in Fiscal 2013. However, funding from a national settlement with mortgage lenders will result in \$18.6 million in funding for the HEMAP program in Fiscal 2013 and a total of \$45.9 million for the subsequent five year period.

## **DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES**

Similar to its fate for the 2011-12 fiscal year (FY), the Department of Conservation and Natural Resources (DCNR) once again fell victim to the budget axe in the final agreement for FY 2012-13. Although the cuts within 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 in 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 cut by an additional \$1.4 million in the final agreement for FY 2012-13. When combined with the reduction for FY 2011-12, the FY 2012-13 budget agreement 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 almost \$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 in FY 2011-12. When these two reductions are combined, state funding for the department's state forest operations is cut by roughly 54% over the 2010-11 fiscal year in the final budget agreement.

Additionally, state funding for the department's general government operations (GGO) is reduced by approximately \$900,000, 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 final agreement reduces 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 final budget agreement continues the practice of raiding other funding sources, namely the Oil and Gas Lease Fund, to supplement line items within the department. In the final agreement, state spending for 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 the department's overall budget was funded by the Oil and Gas Lease Fund in FY 2010-11. A total of \$70 million will be transferred from the fund to the department in FY 2012-13 to supplement its ggo, state park operations and state forest operations. However, even with this increased transfer, the department's total budget for FY 2012-13 is still approximately \$27 million less than it was in FY 2010-11.

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 typical day-to-day operations of the department. 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 need funding to continue their efforts.

Despite all of the cuts mentioned, there was a bit of bright news for the department in the final budget agreement, that being the full restoration of its funding from the Keystone Recreation, Park and Conservation Fund or KEY 93 Fund. The Governor eliminated the department's \$30 million allocation from the fund in his proposal, choosing instead to direct it to the General Fund, while Senate Republican's only restored half of this funding to the department in their budget alternative. The loss of these funds would have been devastating to the department's abilities to maintain and improve our state parks and forests systems, especially when noting the recent expiration of the Growing Greener II program (which helped to fund similar projects through the department). Fortunately, the department's full allocation from the fund has been restored for FY 2012-13, securing much needed funding for land rehabilitation, land acquisition, and repairs and upgrades of facilities within our state parks and state forests systems.

## **DEPARTMENT OF ENVIRONMENTAL PROTECTION**

The funding of the General Government Operations (GGO) of DEP is decreased again this year by \$108,000 in the enacted budget. That additional reduction is on top of last year's \$2.3 million or 17% reduction. The appropriated amount of \$10 million would represent a 24% decrease in the appropriation over the last 4 years.

Environmental Program Management received a reduction 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 also reduced by \$3.5 million which is equal to a 4.6% reduction from the current year.

The Governor also got his way by ending three programs entirely as funding of sewage facilities for both planning grants and enforcement grants were eliminated. A small funding commitment of \$13,000 for the Ohio River Basin Commission was also 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.

## **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.

Act 6A of 2012 set the following appropriations for gaming regulation:

PA Gaming Control Board - \$36.098 million.

PA Department of Revenue – \$9,501,000

PA State Police - \$20,117,000

Attorney General - \$1,011,000

## **PROPERTY TAX RELIEF FUND**

Act 71 of 2004 legalized slot machine gaming in the Commonwealth and created the Property Tax Relief Fund to receive tax revenues from slot machine gaming. Pursuant to Special Session Act 1 of 2006, The Taxpayer Relief Act, those funds are used to provide school district property tax relief in every school district except Philadelphia, which uses its allocation to reduce the city's resident and non-resident wage tax. Gaming funds are also used to fund certain provisions of the Senior Citizen Property Tax and Rent Rebate Act.

On April 13, 2012, Budget Secretary Zogby certified that \$782.5 million will be available for property tax relief in FY 2012-13. The distribution is as follows:

- \$595 million for general school district property tax relief. This figure includes approximately \$86.2 million for resident and non-resident wage tax relief in Philadelphia
- \$20.7 million to reimburse school districts for revenues lost due to the Philadelphia wage tax
- \$137.8 million for the expansion of the Senior Citizen Property Tax and Rent Rebate Program
- \$29.0 million will be transferred to the Lottery Fund for supplemental senior citizen property tax rebates

## **DEPARTMENT OF GENERAL SERVICES**

The enacted budget for the Department of General Services provides for a proposed funding of \$117.5 million for the 2012-13 Fiscal Year (FY). 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. The department also receives an appropriation for Excess Insurance Coverage, Federal and State Surplus, Commonwealth Media Services, and the CoStars Program.

Rental and municipal charges 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 in state funding for the 2012-13 FY was in Capitol Fire Protection, which increased from \$496,000 in FY 2011-2012 to \$2.5 million under the proposed 2012-2013 budget.

## **DEPARTMENT OF HEALTH**

### **AIDS Programs**

The enacted 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. Funding for the AIDS – Special Pharmaceutical Services has been transferred from the Department of Public Welfare to the Department of Health to manage in the coordination with the AIDS Health program funding.

### **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**

Although the Governor had proposed to eliminate funding for Diabetes, Arthritis, Lupus, Regional Poison Control Centers, Epilepsy Support Services and Tourette Syndrome, the enacted budget restores funding to FY 2011-12 levels.

Funding for Bio-Technology Research was restored by the Legislature to \$4.236 million, which is \$2.450 million above the FY 2011-12 funding level. Trauma Programs Coordination received an additional \$0.120 million bringing their appropriated amount to \$0.390 million for FY 2012-13.

### **Tobacco Settlement Funds**

The Governor had proposed 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. This Legislature restored \$39 million in funding for the CURE program and the \$3.1 million Health Priorities funding for FY 2012-2013. 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 enacted 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, the enacted budget does not include any funding for this valuable program.

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

## JUDICIAL

The Governor is recommending an appropriation for the Judiciary in the amount of \$308.18 million for FY 2012-2013. This represents an increase of \$9.3 million from what the Governor initially proposed. The increase is distributed between the Courts of Common Pleas, Magisterial District Judges and Municipal Court

The Commonwealth’s Judicial System includes the Supreme Court, Superior Court, Commonwealth Court, Courts of Common Pleas, Philadelphia Municipal and Traffic Courts 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.

Judicial Department	FY 2012-13 Appropriation
Supreme Court*	\$46,647,000
Superior Court	\$26,415,000
Commonwealth Court	\$16,054,000
Courts of Common Pleas	\$101,472,000
Magisterial District Justices	\$72,032,000
Philadelphia Municipal and Traffic Courts	\$ 6,658,000
Court of Judicial Discipline	\$454,000
Judicial Conduct Board	\$1,531,000

\*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

The appropriations for the Judicial Department are enhanced with a surcharge established by Act 49 of 2009. The total amount of the surcharge is \$13.50. The surcharge is distributed as follows: \$10.25 for the United Judicial System (“UJS” funds judiciary operations), \$2.25 Criminal Justice Enhancement (“CJEA” augments District Attorney salaries) and \$1.00 for Access To Justice (“ATJ” for the purposes of providing for Legal Aid services).

Act 49-2009 will expire December 31, 2014. However, the ATJ fee will sunset October 31, 2012.

The following amounts are expected for the upcoming fiscal year from the following fees:

<b>Account</b>	<b>Fee</b>	<b>FY 2012-13 Estimated Revenue</b>
JCS	\$10.25	\$24.414M
CJEA—DA's	\$2.25	\$5.359 M
ATJ—Legal Services	\$1	\$2.382M
Total	\$13.50	\$32.155M

## **DEPARTMENT OF LABOR & INDUSTRY**

There are relatively few changes contained within the fiscal year (FY) 2012-13 budget agreement for the Department of Labor and Industry. Total state funding for the department is set at \$72.5 million for FY 2012-13, an increase of only \$840,000 from FY 2011-12, meaning most of its line items would see little-to-no funding changes over the prior fiscal year. However, there are a few notable changes to appropriations within the department and several areas of note when discussing its funding within the final budget agreement, all of which are listed as follows:

- First and foremost, the fact that the department will see its total state allocation increased over the prior fiscal year is a victory in and of itself. Thanks in part to efforts by the Senate Democratic Caucus, funding was added back to the department's budget in the final agreement that would have otherwise been lost if the Governor's proposed budget would have been signed into law. The Governor recommended cutting the department's state allocation by slightly more than \$1.2 million, which was extremely concerning seeing the role the department plays with creating jobs in the state. Fortunately, Senate Democrats, and other groups dissatisfied with the commonwealth's current state of unemployment (7.4% in May 2012), were able to turn the tide and successfully push for increased funding for the department over the 2011-12 fiscal year.
- Funding for the New Choices/New Options program has been reinstated in the final budget agreement. Although the Governor eliminated funding for this program in his budget proposal, efforts by various interests, including the Senate Democratic Caucus, helped to secure \$500,000 for it in FY 2012-13. The New Choices/New Options program offers career counseling, job search assistance, and funding for continued education to single parents/displaced homemakers (low income, unemployed, or underemployed individuals), with the goal of helping them achieve economic self-sufficiency.

- Similarly, Senate Democrats also helped to restore additional funds for another successful and critical workforce development program within the department, that being the Industry Partnerships program. The Industry Partnerships program works to bring together multiple employers, and workers or worker representatives when appropriate, in the same industry cluster to address common or overlapping human capital needs. Funding for the Industry Partnerships program has been set at \$1.6 million for FY 2012-13, up from the \$1.4 million that was proposed by the Governor.
- Furthermore, an additional \$2.5 million will be allocated to the Department for a new initiative called Keystone Works. Based largely on the Senate Democratic “Train-to-Work” program within the “PA WORKS” jobs package, the initiative will establish a five-year on-the-job training program for unemployed workers. Unemployed workers will be eligible to receive training from participating businesses while continuing to collect unemployment benefits as a form of compensation. At the conclusion of the training period, the trainee will be considered for employment with the participating businesses, which, in turn, will be eligible to receive cash credits for employing the trainee.
- Finally, the Assistive Technology line item has been separated into two individual appropriations within the department to represent the organizations in which they are affiliated with, the Assistive Technology Foundation (ATF) and the Lending Library. Both of the Assistive Technology line items are reduced in the final budget agreement by 5%, respectively. Funding for the ATF is set at \$244,000 for FY 2012-13, down from \$257,000 in FY 2011-12, and funding for the Lending Library is set at \$399,000 for FY 2012-13, down from \$420,000 in FY 2011-12.

## **UC Trust Fund**

Earlier this month, the Governor signed into law SB 1310 which authorized the Department of Labor & Industry and the Pennsylvania Economic Development Financing Authority to issue up to \$4.5 billion in bonds in order to repay federal loans from the Federal Unemployment Account (FUA) used to pay benefits under the state's Unemployment Compensation (UC) program. While using a bond to pay off the debt is estimated to save Commonwealth employers \$1 billion, they will also save considerable money as the State Adjustment Factor (SAF) is lowered over the next seven years. The Taxable Wage Base will increase as the SAF is lowered, but the result will still be considerable savings for employers as employees are asked to shoulder a growing portion of the tax burden.

## Jobs Update

Pennsylvania's seasonally adjusted unemployment rate remained at 7.4 percent in May 2012, with 474,000 individuals left off the job rolls. Although the commonwealth's rate remained below the national unemployment rate of 8.2 percent for May, employment growth in the commonwealth has reversed course and slowed to a snail's pace. Total employment in the commonwealth declined by approximately 10,000 in May, the largest decline of jobs seen this year. More alarming, employment growth has now shrunk to only 27,000 year-over-year jobs added for the month of May, a far cry from increases seen at the tail end of the Rendell administration. Consequently, Pennsylvania continues to fall further behind the rest of the country in net employment growth, ranking 44 amongst all other states, compared to the 7<sup>th</sup> position it held just last February.

## May 2012

	<b>PA May 12</b>	<b>US May 12</b>
<b>Civilian Labor Force</b>	6,451,787	155,007,000
Employment	5,713,300	142,287,000
Unemployment	474,633	12,720,000
Unemployment Rate	7.4%	8.2%

## 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. Ticket sales are expected to grow by about \$98 million or 2.9% in the 2012-13 Fiscal Year.

Expenditures are expected to increase slightly in the upcoming budget year. The funding for Medical Assistance – Long Term Care will increase by \$130.7 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 \$101.7 million or about 6.2%.

## **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 enacted 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 Transportation Funding**

Congress has reached an agreement on a transportation bill for the first time since 2005, averting a crisis that could have disrupted the nation's highway projects at the height of the construction season. The conference committee bill, which would maintain spending at the current level of about \$54 billion a year, is set to come up for a ratification vote in both chambers by the end of June. Lawmakers believe the bill will protect and create 3 million jobs. The bill would expire in 2014, and it would draw on several other pools of money to supplement the longtime source of federal transportation funding, the Highway Trust Fund. The transportation bill would rely on transfers of almost \$5 billion from the general fund; almost \$3.7 billion from a fund to fix leaking underground storage tanks; almost \$700 million from the gas guzzler tax, which targets new cars with poor fuel economy; and \$4.5 billion from tariffs on imported vehicles. Congress will need to examine transportation funding more closely at the expiration of this extension, as the 18.4 cents per gallon federal gasoline tax is no longer bringing in enough revenue to maintain the current level of transportation funding.

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

In the final Fiscal Year 2012-2013 budget, \$810 million will be used on Pennsylvania highways for repair, resurfacing, and reconstruction. This is a reduction of \$80 million from prior 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 replacing 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 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 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. 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 enacted budget 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 restoration in the enacted budget from the Governor's proposed budget of funding for the Rail Freight Assistance line item. This line was funded at \$5.75 million in the 2011-12 budget and will be flat funded in the 2012-13 budget. This program provides 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 will increase modestly by \$1.98 million to total \$81 million in the enacted 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 (GGO) 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. The fiscal year 2012-13 budget has allocated \$176.6 million from the General Fund and \$529.8 million from the Motor License Fund.

The final budget provides \$7.9 million 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.

Senate Bill 237, which is expected to be sent to the Governor's desk and signed into law, would drive approximately \$4 million per year to the State Police for more cadet classes. It would do so by directing all of the fine money in any municipality that relies on the state police as their primary police force to the state police. Currently, the municipality still receives half of that money.

Also of note is the movement of the statewide public safety radio system line item from Executive Offices into the State Police. Since the State Police use the radio system more than any other agency, it is logical to be placed here.

Forensic laboratory support has been reinstated in the 2012-13 final budget. In the Governor's budget in February, this line item had been zeroed out. \$1.5 million has been added back, reflecting current year funding levels. This will help to continue to reduce the DNA backlog at the State Police DNA testing labs.

## **PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY**

The Emergency Management Agency (PEMA) will be mostly level-funded for the 2012-2013 Fiscal Year. PEMA is an agency that receives the majority of its funding through federal money, the bulk of which is for Domestic Preparedness-First Responders and for Civil Preparedness. Both of these items are funded at the same level as FY 2011-12. The Red Cross Extended Care Program line item, that was slated to be eliminated, is restored to \$100,000.

The passage of SB 866 will extend the sunset for the Volunteer Fire Company and Volunteer Ambulance Service Grant Program until 2016. Under the new law, career fire companies are also eligible to apply for grants. An additional \$5 million in gaming proceeds will be added to cover that expansion; for a total of \$30 million.

The line item for The Office of the State Fire Commissioner was cut to \$1.9 million, but language is added to SB 866 permitting the commissioner to use up to \$250,000 of the funds available for the volunteer company grants program for the administration for the grant program.

The Commonwealth will also allocate \$16 million for Storm Disaster Relief for storm damage in 2011.

## **DEPARTMENT OF REVENUE**

The Department's general government appropriation received 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 \$100 million more in revenue collections by allowing the Department to utilize enhanced collection efforts and take those costs off-budget by paying for the additional employees and resources out of the additional revenue they collect.

The technology appropriation is included in the final spending plan and 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 allocates \$9.1 million for the Department of State for FY 2012-13. The cuts are 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 \$482,000 for the Statewide Uniform Registry of Electors to keep up with regulations and mandates of the program.