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## **GENERAL FUND**

### **2009-10 Fiscal Year**

The Governor correctly sees that recovery is going to be a slow starting affair. The challenges to the existing budget are profound. He has already stated that the official revenue estimate upon which the budget was based is too high by \$525 million out of \$25.7 billion that was certified in October of 2009. This is a 2.1% reduction in expected revenues.

The Governor took immediate steps to bring this budget back into balance in January by placing \$163 million into budgetary reserve where it will not get spent. In his budget presentation he has identified \$135 million in current year lapses. These steps are expected to balance the 2009-10 budget.

### **2010-11 Fiscal Year**

Since job growth is not expected to rebound until the end of 2011 the Governor is building his 2010-11 budget with \$964 million less in revenue than was originally estimated for the 2009-10 fiscal year. However, the revenues estimated for 2009-10 include nearly \$2 billion in one time fund transfers. If those transfers are removed the actual expected revenue growth of recurring tax revenues is \$936 million which represents 3.5% growth. Expenditures are expected to grow by \$1.2 billion which is 4.1% higher than the current year's expenditures. The increase in spending will not come from increases in general government line items. Many of them are cut 1% from the current year's amounts, which were already severely reduced from the level contained in the 2008-09 budget. It is clear that the Governor's proposed budget is a very conservative blueprint.

The areas that will receive the bulk of the anticipated \$1.2 billion increase are basic education which would receive an additional \$443 million, including \$354 million basic subsidy increase, Public Welfare slated for a \$413 million increase, \$145 million for Corrections/Probation & Parole, \$83 million more for Debt Service and Aging & Long Term Living gets an additional \$69 million.

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.

## **TAXES**

### **2009-10**

The estimates for 2009-10 fiscal year tax revenues are adjusted downward by \$525 million or 1.8% in the Governor's budget presentation. Sales tax estimates are reduced by \$300 million and income tax collections are reduced by \$271 million. Two other tax estimates are raised by significant amounts. Cigarette tax collections are increased by \$59.4 million and realty transfer tax estimates are increased by \$23 million. Through January revenue collections are \$374 million below estimates or 2.5%, so the Governor is predicting that the revenue deficit will slow down in percentage terms.

### **2010-11**

When the one-time transfers are subtracted out of the estimated revenue for the 2009-10 fiscal year the expected revenue growth is a fairly healthy \$1 billion or 3.9%. The 2010-11 estimate contains an expected \$92.5 million from the newly implemented table games. However, in actual collection amounts the estimate for 2010-11 is actually \$784 million less than is expected to be collected in the current year due to all the one time transfers that are part of the current year, but will not be available in the proposed budget year.

The Governor predicts strong growth for the income tax in 2010-11 as estimates grow by 3.7%. The expected rebound in sales tax is astronomical at 6.6% over the current year's revised estimate. The Governor is predicting a decrease in corporate net income tax revenue of \$60 million or 3.3% less than the current year's estimate.

### **Stimulus Transition Reserve Fund**

The Governor proposes the creation of a new fund that will be used to ease the commonwealth off the federal stimulus funds. The new fund to be called the Stimulus Transition Reserve fund would receive revenue from three primary sources: A natural gas extraction tax, broadening the base of the sales tax, to tax services and expanding the cigarette tax to the remainder of the other tobacco products. The fund would be drawn down starting in fiscal year 2011-12 when the stimulus funds are exhausted. The Governor does not include estimates of how much revenue could be expected to accrue to the fund each year.

The extraction tax is the same as was proposed last year with a rate of 5% on the value of the gas produced and 4.7 cents per thousand cubic feet of gas removed from the ground. The one change from last year's proposal is that low producing wells would be exempt from the tax entirely.

As part of last year's budget passage small cigars were taxed as part of the cigarette tax. The Governor proposes taxing the remaining other tobacco products at 30% which is the same equivalent level as cigarettes are taxed. The remaining tobacco products not taxed are primarily larger cigars and chewing tobacco.

The proposed changes to the sales tax are profound. The Governor proposes eliminating 74 of the current exemptions which are on necessities and services. The rate would be lowered to 4% from its current 6% and the excess collections over his official estimate would be the amount that would go to the new reserve fund. The list of the 74 changes is not included. As a further change the vendor 1% commission would be eliminated and that revenue, which is estimated at \$75 million, would go to the fund.

## **ROW OFFICES**

### **Attorney General**

The Governor has recommended an appropriation in the amount of \$85.657 million for the Office of Attorney General (OAG) in the FY 2010-11 proposed budget. This represents an overall decrease in funding of \$865,000 from FY 2009-10. General Government Operations in the OAG were cut by approximately 1%. The General Government Operations 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:

- \$2.97 million—Joint Local-State Firearms Task Force
- \$495,000—Gun Violence Witness Relocation Program
- \$2.163 million—Drug Strike Task Forces
- \$10.396 million—Local Drug Task Forces

### **Treasurer's Office**

The Treasurer's general government is proposed to be reduced \$400,000 following this year's cut of \$4.7 million. The Governor does find \$3.5 million for new technology spending for the 2010-11 budget.

The budget proposes \$18 million in federal stimulus funds for energy efficiency loans. The Treasurer has had a program that has been handled through a private bank that lent money to businesses and individuals for small energy efficiency improvements.

The Treasury is also slated for increases in debt service for the Commonwealth. General obligation debt service payments are expected to increase by \$83 million which is an 8.9% increase. There are also costs associated with the issuance of tax anticipation notes included in the Treasurer's budget. This will be the second year that cash flow problems will require the borrowing of money until tax revenue will come in.

### **Auditor General**

The proposed budget for the Office of the Auditor General will see no significant changes in FY 10/11 with the following exceptions:

- A cut of \$465,000 for its general government operations.
- Two added appropriations totaling \$250,000 for security and transition expenses of the incoming and outgoing Governors.

### **DEPARTMENT OF EDUCATION**

Since 2003 the Commonwealth has made unprecedented new investments in public education programs. Over the last several years, \$2.5 billion has been targeted for Classrooms for the Future, Accountability Block Grants, Pre-K Counts, and other key education initiatives including early learning programs, tutoring assistance, science and math instruction, classroom technology, and high school restructuring. These investments have had a significant impact. Pennsylvania is the only state to see increases in student achievement in elementary, middle and high school from 2002 to 2008. School districts that were targeted with the largest investments have shown a 40 percent increase in students performing at grade level.

But Pennsylvania still has work to do. The federal mandate to bring all students to grade level by 2013/14 is now just three years away. The 2010/11 goals are 72% of all students on grade level in reading and 67% of students on grade level in math. If that standard were in place today, more than 1,500 schools and nearly half of school districts would receive a failing grade.

The Governor has included a \$354.8 million proposed increase in funding for the basic education subsidy, to continue to provide the state funding necessary to address the adequacy gap, using the new funding formula which recognizes the actual number of students in each district, geographic price differences and the additional costs of English-language learners and children from low-income families. This amount, while substantial, is less than the amount put forward in the original six-year plan, and for this reason it may take additional years to meet Pennsylvania's original adequacy target.

The budget would continue to fund the Governor's other major education initiatives including \$85.9 million for Pre-K counts; \$38.7 million for Head Start; \$271.4 million for Accountability Block Grant subsidies; \$55.3 million for tutoring assistance; \$13.5 million for Science: It's Elementary; and \$8 million for Dual Enrollment placements.

As a complement to state funding, Pennsylvania has a unique opportunity to take advantage of the federal Race to the Top (RTTT) Program this year, with the chance to receive up to \$400 million in funding for education. Of the award amount, at least half will be disbursed directly through the participating school districts. The districts can then tailor the qualifying initiatives and reforms to their districts with guidance from the state level where needed. These funds will not replace any state funding, but would be an addition to the funds to target the schools and districts most in need across the Commonwealth.

The proposed budget provides level state funding for the Special Education line, however supplemental ARRA money is anticipated. In addition, funds are provided for Early Intervention (\$186.1 million) and Approved Private Schools (\$98.1 million) and Chartered Schools for the Deaf and Blind (\$39.4 million). The Governor is proposing an additional \$12.6 million for Early Intervention to improve Student Achievement. The additional funds would be used to continue the new funding methodology that establishes a benchmark payment per child for program services and to expand early intervention services to 1,229 additional children from ages 3 to 5.

The Public Library Subsidy would be reduced \$1.2 million under the Governor's proposal, for a total appropriation of \$58.8 million. The library subsidy supports more than 600 library facilities and 29 district library centers across the Commonwealth. The proposed budget does include funding from the Keystone Recreation, Park and Conservation Fund for local libraries rehabilitation and development in the amount of \$2.5 million. In the current year, this funding was transferred to the General Fund.

## **HIGHER EDUCATION INSTITUTIONS**

### **Community Colleges**

The Governor's proposed budget keeps funding for community colleges at the current year level. With the combined use of state general funds and federal ARRA funds, Community Colleges would receive \$235.7 million for 2010/11. Available funds for capital projects would be \$46.4 million. In total, the proposed budget includes \$282.1 million for community colleges.

Funding for the community colleges is shared by sponsoring counties or school districts, the students through tuition payments and the commonwealth. Commonwealth appropriations are based on a formula that ensures predictable base operating funding with a hold harmless clause so that no institution receives less than the prior year's funding, provides a supplement for enrollment growth, provides a stipend for students enrolled in economic development programs that focus on high priority occupations and recognizes the capital costs of the colleges.

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

The Pennsylvania State System of Higher Education (PASSHE) would receive a total of \$503.4 million in combined state general and federal ARRA funding for 2010/11 under the Governor's budget proposal, the same funding levels as in the current year. This amount is equal to 2007/08 funding levels.

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 Governor has included \$11.1 million from the Keystone Recreation, Park and Conservation Fund for deferred maintenance projects. In the current year, the funding was transferred to the General Fund for one year.

### **State-related Universities**

The Governor includes level funding for the 2010/11 fiscal year for the state-related universities, specifically the Pennsylvania State University, the University of Pittsburgh, Temple University and Lincoln University. These amounts are equal to 2007/08 levels, using a combination of state general and federal ARRA funds. ARRA requires federal State Fiscal Stabilization Fund money to be used to restore funding to these institutions. In total, \$31.2 million for 2010/11 in ARRA monies are recommended.

### **State-aided Institutions**

The Governor's proposal does not include funding for the state-aided institutions with the exception of two University of Pennsylvania programs – Veterinary Services (\$30 million) and the Center for Infectious Disease (\$500,000).

## **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. The governor's budget request includes total funding of \$455.2 million. All appropriations are recommended at the current year funding levels.

### **Grants to Students**

The Grants to Students appropriation comprises the largest portion of the PHEAA state appropriation. For 2010/11, the Governor is recommending total funding of \$403.6 million. It is anticipated that the number of applications will increase for fall 2010. With an approximate 178,000 grant recipients, the average award (estimated at \$2,724 for 2009/10) and the maximum grant amount (\$4,120 in 2009/10) would have to be reduced.

Funding for Grants to Students has increased \$55.7 million or 16% since 2002/03.

### **Institutional Assistance Grants**

The Institutional Assistance Grants line, which provides assistances to higher education institutions that do not receive other state funds, is recommended at the current year funding level of \$30.3 million. Institutions receive this allocation based upon the total number of eligible grant recipients enrolled. It is expected that in 2010/11 per capita grant amount would be \$738.

Remaining appropriations in the PHEAA budget are recommended to be funded at their 2009/10 funding levels.

## **EXECUTIVE OFFICES**

The proposed budget for FY 10/11 includes a few notable changes for appropriations within the Governor's Executive Offices from the revised FY 09/10 budget. These changes are as follows:

- The elimination of funding for Public Television Station Grants. The elimination of grant funding for the states eight public television stations will result in \$500,000 in savings for the state.
- A reduction of approximately \$1.4 million for the Statewide Public Safety Radio System to reflect revised funding allocation percentages.

- A combined reduction of \$7.6 million for appropriations related to youth based violence prevention, victim services and law enforcement activities. This combined reduction is made up from cuts to the following:
  - The elimination of the Law Enforcement Activities line item (\$5.9 million)
  - A \$500,000 reduction for Victims of Juvenile Crime
  - A \$500,000 reduction for Evidence-Based Prevention
  - A \$500,000 reduction for Research-Based Violence Prevention
  - A \$200,000 reduction for the Weed and Seed Program

## **DEPARTMENT OF AGING and LONG TERM LIVING**

### **Restructuring the Long-Term Living System**

Pennsylvania has the third oldest population of any state. The fastest growing segment of this population is people over 85 and the group most likely to use the long-term living system. In order to meet the challenge of the Commonwealth's growing elderly population, the Governor is looking to significantly reorganize the long term living system to improve efficiency of service delivery and coordination of consumer services.

The Governor is proposing to integrate several programs managed by the departments of Public Welfare and Aging. The combination of these programs will create the new Department of Aging and Long Term Living. The Governor believes the creation of this new department will allow consumers to overcome barriers to services and supports and ensure the availability of real and viable choices to consumers. Furthermore, the new department provides people with disabilities and older adults a permanent solution to a previously fragmented system in a cost effective manner.

In order to provide the necessary budgetary authority to offer quality services and manage costs, a total of \$3.5 billion (state, federal, and other funds) will be transferred from DPW to the new department.

### **Long Term Care**

The proposed state appropriation for the long-term care program represents a \$20.2 million increase, or approximately 4%, increase over the current year. The \$20.2 million increase will fund projected increases in support programs, home and community based services, and nursing facility services.

In addition, the Governor proposes a \$6.2 million state fund initiative to provide home and community based services to 1,692 additional older Pennsylvanians.

The Governor's budget also provides an increase of \$11 million in General Fund appropriations to provide services to an additional 1,524 Persons with Disabilities and Attendant Care.

- A net increase of \$11.3 million has been provided in the Persons with Disabilities appropriation. The increase in funding will provide home and community based services to an additional 744 individuals with disabilities (\$6 million). In addition, \$7 million is provided to maintain current services. Also, a revision of the federal financial participation percentage has saved \$1.7 million in this appropriation.

- The Governor is recommending a \$4.9 million increase to the Attendant Care appropriation. The \$4.9 million will sustain current program services (\$1 million), and \$5.1 million to provide home and community based services to an additional 780 individuals. Also, a revision of the federal financial participation percentage has saved \$1.1 million in this appropriation.

The goal of this administration is achieving a balance of 50% institutional care to 50% home and community based care.

### **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 8,245 families will receive these services in 2010-11.

### **Pre-Admission Assessment**

Funding for the Pre-Admission Assessment Program is reduced by \$1.2 million 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. It is anticipated that assessments and referrals to community services will increase in 2010-11.

## **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 \$243.6 million for the lottery funded PENNCARE appropriation, in addition to federal funds, to continue the current Attendant Care Program and provide services to an additional 285 recipients. Funds are also used for Older Adult Protective Services to investigate suspected elder abuse reports. As part of this appropriation, the Governor has included \$700,000 to provide additional services to reduce reliance on institutional long-term care and promote growth of high quality home and community based services.

### **Pharmaceutical Assistance**

The Governor's budget proposes a reduction of \$10 million in funding for 2010-11 when compared to the current fiscal year. However, due to a projected decrease in the number of seniors enrolled in PACE and the cost savings outlined below, it is estimated that 4,400 additional seniors will be served in 2010-11 than in the current year.

The Governor is seeking approval to include the PACE/PACENET program in the National Medicaid Pooling agreement to receive additional pharmaceutical rebates. This has the potential to decrease the Lottery Funds needed by \$14.9 million.

Secondly, the budget also anticipates a savings of nearly \$5 million in Lottery Funds with federal reform to Medicare Part D that will reduce the amount the program pays for doughnut hole coverage for its participants.

## **DEPARTMENT OF AGRICULTURE**

General Government Operations is proposed to receive \$28 million in the 2010-11 budget year. The Bureau of Food Safety and Laboratory Services provides over 40,000 food inspections. It also re-inspects almost half of the food facilities it had initially examined. The department supports HB174 which creates tougher food inspection criteria which will reduce the number of second inspections. The cost of the new law if passed will be \$10.6 million. To protect the quality of animal feed the GGO regulates the sale of animal products. The GGO is the administrative body of the Department that ensures that the department's programs are in compliance with state and federal laws while best representing the farmers of the Commonwealth.

The Animal Health Commission may receive \$4.9 million in the proposed 2010-11 budget. Last year it received \$5.15 million. This program is committed to maintaining the health of domestic animals in order to protect human health. The quantity, quality, and safety of food from farm animals are one of its main responsibilities. The agency develops test programs for diseases such as: brucellosis, bovine tuberculosis, pseudo rabies, avian influenza and chronic wasting disease to mention a few. It has been testing for any virulent strains of the flu in the swine population and any serious outbreaks. The research that the Animal Health Commission performs alerts human health research centers of possible virus's that could affect human health care.

Crop Insurance was funded in the 2009-10 budget at \$600,000. But this program was so successful that the 2010-11 budget provides \$1 million. This program which has existed in the last decade has helped farmers deal with adverse weather conditions that have seriously impacted crops across the state. The federal government's new budget (2010-11) contains additional incentives for this very important program. The federal government strongly encourages farmers to participate in crop insurance programs through incentives.

The 2009-10 budget provides \$250,000 for the Agricultural Promotion, Education and Exports program but because of further budget erosion, it was cut. However, the General Government Operation line item in the 2010-11 budget year will fund this program to maintain its' efficiency.

This appropriation will allow the program to fund those agribusiness projects that may not receive any other funding thereby affecting marketing efforts by small agribusiness projects by smaller farms. Fortunately, the federal government has recently provided additional money to leverage this state money to develop and maintain overseas markets for agricultural grown in the United States.

The State Food Purchase Program is funded at \$18 million for the 2010-11 fiscal year. Much of these dollars will be used to purchase federal surplus food and to leverage additional money for food programs throughout the state. During the downturn in the economy, this program has provided significant food resources to countless families. For example, in 2009 15.9% of Pennsylvanians did not have enough money to buy food that they or their family needed.

The Nutrient Management Program received \$3.1 million in the 2009-10 state fiscal year. The 2010-11 budget proposes \$3 million. This program was created from Act 38 of 2005 to assist and oversee the farm community in developing nutrient management plans to protect water and clean air. The program assists farmers to develop their own nutrient management plans for their own farms that limit as much as possible collective waste that may impact water or air quality. This program is especially important with the renewed emphasis of water quality in the Chesapeake Bay watershed.

## DEPARTMENT OF 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. According to the U.S. Justice Department, Pennsylvania's prison population grew much faster than any other state's from 2007-2008. Nationwide, state and federal inmate population increased less than 1%, while Pennsylvania's was up 9.1%. Overcrowding in county jails pushes more sentenced offenders into the state prison system, and the number of people whose parole supervision is revoked now makes up 33 percent of prison admissions. In prison, inmates often serve longer terms 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.

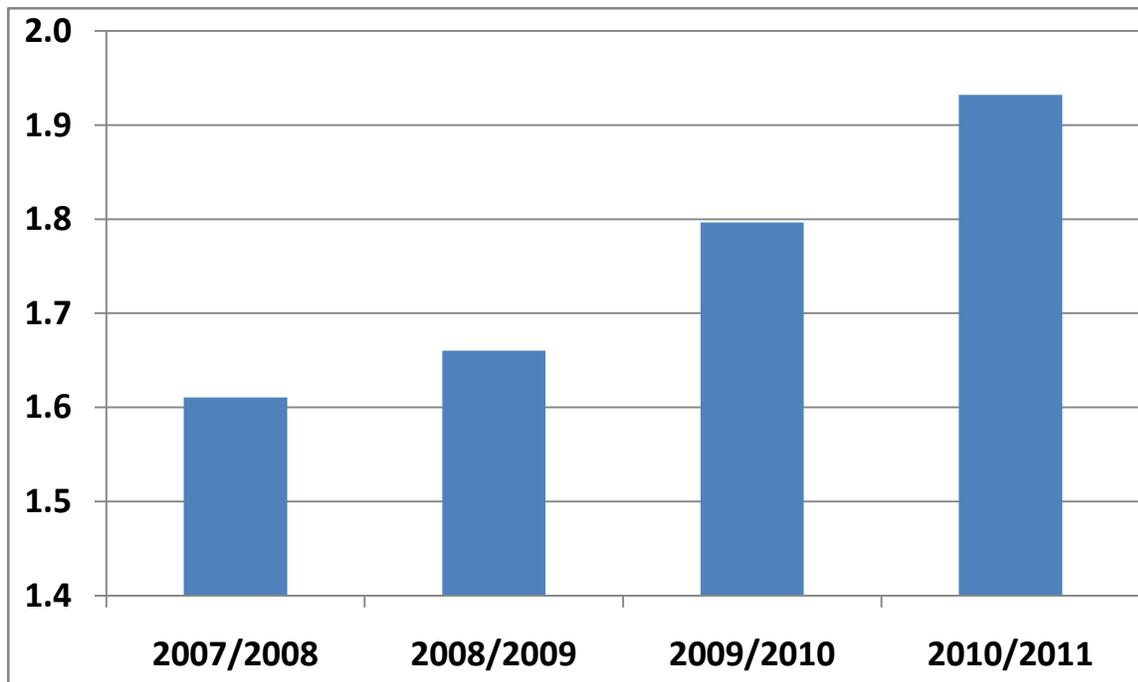
### FY 10/11 Budget

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

In the Governor's proposed 2010/2011 budget, state spending for the Department of Corrections will reach nearly \$1.93 billion, an increase of \$136 million or 7.6% over the current year funding level.

#### **State Correctional Institution Appropriations**

(Dollar amounts in Millions)



Mirroring a national trend that finds the size and cost of America's prison systems skyrocketing, the Commonwealth is currently operating at 6,285 inmates over capacity. For FY 10/11, the Governor is requesting an increase of \$118 million for the Institutional system to house an offender population that reached nearly 51,487 inmates in December 2009. Of this population, 49,429 are housed throughout the State's 27 institutions, while the remaining inmates are housed in Community Correction Centers and other jurisdictions.

Of the \$118 million increase, \$93 million will be used to operate the State's 27 institutions and provide operational resources for an additional 2,000 beds in nine institutions to address increases in the offender population during FY 2010/2011. In addition, the Governor is requesting \$32 million to contract 2,100 beds in correctional institutions in Michigan and Virginia for the entire FY 2010/2011. With the population forecasts showing that inmate growth between now and when a new institution will be available will be greater than the number of beds being added to the system, the DOC estimates these inmates could remain out of state until at least 2012.

### **Federal Stimulus Package**

The Fiscal Stabilization Fund, a component of the federal stimulus package, provides \$25 billion for critical State funding needs. The Governor is proposing to use \$173 million in ARRA-Fiscal Stabilization funds to help offset SCI costs during FY 2010/2011.

### **Medical**

As the inmate population continues to rise, so do the medical care expenses for the inmates. The Department has requested a \$16.8 million increase in the medical care appropriation for the continuation of current medical services.

## **BOARD OF PROBATION AND PAROLE**

### **Background**

According to the Bureau of Justice Statistics, at year end 2008, over 5.1 million adult men and women were supervised in the community either on probation or parole. Probationers (4,270,917) represented the majority (84%) of the community supervision population in 2008; parolees (828,169) accounted for a smaller share (16%). The probation population increased by 36,446 probationers (0.9%), while the parole population increased by 6,992 parolees (0.9%) during the year.

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 10/11 Budget**

In the proposed FY 10/11 budget, the Governor has recommended an increase in Probation and Parole's General Government Operations spending of \$8.1 million, or 8.5% over current year. The \$8.1 million increase includes \$7.1 million to continue current programs and \$2.1 million for a new initiative, Enhancement of Case Processing Services, which will provide for additional probation officer positions to improve parolee supervision and to reduce the likelihood of repeat offending. At the end of FY 10/11, the Board anticipates approximately 34,077 supervised parolees and probationers, up almost 1,550 or 4.8% over current year projections.

The Sexual Offenders Assessment Board received an additional \$448,000.

The estimated State Supervision Fee Collections for FY 2010/2011 are \$3.3 million, which is a decrease of \$270,000 over current year collections.

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

Pennsylvania, and the nation as a whole, is once again faced with a tight budget year where difficult cuts need to be made in order to stabilize the economy of the Commonwealth. The national unemployment rate dropped from 10% to 9.7% in January, with Pennsylvania still running in the middle of the pack with a rate of 8.9%, a rate that has been close to constant for the past 8 months.

One area in which Pennsylvania has been able to stay ahead of the game is with investments in the Commonwealth and its residents and businesses. This success story is highlighted by the \$83 million in proposed funds to the Commonwealth Financing Authority, an increase of almost \$20 million from FY 09-10. The CFA has proven itself a valuable asset to the Commonwealth through grants and loans for alternative energy projects which has drawn new businesses and jobs to Pennsylvania, as well as helped to retain existing ones.

In the same vein of promoting job creation and retention within the Commonwealth, as well as business expansion, the proposed budget calls for \$25 million for the Opportunity Grant Program as well as a \$20 million transfer to the Ben Franklin Technology Development Authority Fund, \$11 million for Customized Job Training, and \$19 million for Infrastructure Development.

However, DCED did not escape the proposed budget without cuts in several of its lines. With the revenue numbers still projecting a shortfall, many cuts were needed in order to bring spending in line with the anticipated available funds. Most areas were only subjected to minor cuts, with a focus on keeping funds in areas that provide relief to communities and Commonwealth residents including \$20 million to Housing and Redevelopment Assistance, almost \$11 million through the PHFA for Homeowners Emergency Mortgage Assistance, and \$1.1 million for Accessible Housing. Nevertheless, there were a handful of programs and lines that have been proposed to be cut completely from the previous budget year.

In addition, DCED is also the recipient of money from various other funds. Among these, are \$50 million from the Ben Franklin Technology Development Authority Fund, \$40 million as an Executive Authorization from the Machinery and Equipment Loan Fund, \$14.69 million from the Growing Greener Bond Fund which allocates \$9.4 million for Main Street and Downtown Redevelopment and \$5.3 million for Industrial Sites Reuse Program.

While DCED has the benefit of ARRA funds to offset and complement state costs in many areas, the \$125 million is only little more than half of what was received in the 2009-10 FY. The biggest cuts in ARRA funds were a 40% reduction in weatherization funds for a total of \$120 million; and a reduction of approximately \$120 million in various block grants.

Overall, DCED is set to receive just under \$723 million for the 2010-11 FY. This reflects a decrease of \$200 million decrease, or 22%, from the 2009-10 FY.

## **DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES (DCNR)**

The budget for FY 10/11 proposes a total state appropriation of \$91.3 million for the department, which is approximately the same amount of funding available to the department in the revised FY 09/10 budget. All appropriations proposed for the department in FY 10/11 are identical to spending levels either originally enacted in FY 09/10 or, if adjusted, revised by the Governor when he placed funding in budgetary reserve. In total, roughly \$1 million of the department's funding was placed in budgetary reserve in FY 09/10, consisting of \$200,000 from the department's general government operations, \$500,000 from state parks operations, \$170,000 from state forests operations, and \$120,000 from forest pest management. However, these amounts could be added back to their respective appropriations for FY 10/11 if revenue collections improve, raising them back to levels originally enacted in FY 09/10.

Aside from discussing specific line item appropriations, the department will also continue to receive funding from the Oil and Gas Lease Fund. Although monies in this fund are projected to substantially increase from Marcellus Shale drilling operations, the Governor has proposed to use the majority of its proceeds to balance the budget for FY 10/11. Under the current proposal, \$180 million will be transferred from the Oil and Gas Lease Fund to the General Fund in FY 10/11 (\$68.5 million has already been generated for this transfer as a result of recent Marcellus Shale lease sales, provided they are finalized). Since the majority of the fund's proceeds will be used to balance the budget, the department's appropriation from the fund will see no increase over the prior fiscal year and has been set at \$19 million.

In addition to monies coming in from lease sales and royalty payments, the Governor has, again, proposed a natural gas extraction tax to generate additional revenues for the Commonwealth. The tax will apply to all natural gas drilling operations in the state, with the exception of marginal or shallow well operations. It is comprised of a 5% tax on the gross value of the gas extracted and an additional 4.7 cents for every thousand cubic feet of gas produced. For FY 10/11 the tax is anticipated to generate slightly over \$100 million. However, the department would not receive any proceeds from the tax if enacted in FY 10/11; rather, all of the funding generated from it will be deposited into the new Stimulus Transition Reserve Fund.

While not slated to receive possible severance tax revenues, the department will continue to receive supplemental funding to improve and maintain the state parks and state forests systems through the Growing Greener II Bond initiative. The initiative was established in 2005 to provide DCNR nearly \$200 million over a six year span for various maintenance operations, construction projects, facility upgrades and conservation efforts. To date, DCNR has spent \$152.8 million of appropriated Growing Greener II funding on various projects. For FY 10/11, DCNR will receive \$28 million from the Growing Greener II initiative. FY 10/11 is the last year the department is scheduled to receive funding from Growing Greener II.

The following chart lists the number of projects completed through 2009 with Growing Greener II funding.

<b>Project Type</b>	<b>Number of Projects</b>	<b>Amount Spent</b>
Community Parks and Recreation	109	\$8,986,600
Open Space Conservation	86	\$50,548,794
Parks and Forestry Facilities and Infrastructure	131	\$93,273,299
<b>Grand Total</b>	<b>326</b>	<b>\$152,808,693</b>

## DEPARTMENT OF ENVIRONMENTAL PROTECTION

There are no significant increases to any of the appropriations within DEP. The reductions the Governor made in January are for the most part continued in his proposed budget. The three main appropriations that contain the bulk of the personnel and serve to operate most of the activities of the department; General Government, Environmental Programs and Environmental Protection, are indeed flat funded.

The Governor does propose hiring an additional 68 employees to strengthen the Department's oil and gas program. These new employees would be paid for with the fees collected from shale drilling permits.

## GAMING CONTROL BOARD

The budget proposes an appropriation of \$39.394 million for the operation of the Gaming Control Board. This funding will be used for the operation and personnel costs of the Board. The Gaming Board is responsible for the oversight of up to 14 operating facilities and up to 61,000 active slot machines and table games at all facilities.\* Currently there are 9 venues open with more than 25,000 active slot machines.

A breakdown of revenues for the operating facilities as of January 31, 2010 and for Fiscal Year to Date follows:

	<b>FYTD January 31, 2010</b>	<b>Grand Total from Enactment of Act 71</b>
<b>Total Gross Terminal Revenue</b>	<b>\$1,221,614,175</b>	<b>\$4,834,949,860</b>
<b>Total Property Tax Relief</b>	<b>\$415,348,819</b>	<b>\$1,643,883,013</b>
<b>Total Local Share Assessment</b>	<b>\$48,864,566</b>	<b>\$193,398,001</b>
<b>Total Economic Development</b>	<b>\$61,080,709</b>	<b>\$241,747,503</b>
<b>Total Race Horse Development Fund</b>	<b>\$146,525,950</b>	<b>\$580,126,253</b>

### State Gaming Fund

The total amount proposed for appropriation to the Pennsylvania Gaming Control Board is in the amount of \$39.394 million. In addition, this appropriation for the operation of the board includes a transfer in the amount of \$703.2 million to the Property Tax Relief Reserve Fund. Additionally, the amount of \$12.5 million is transferred to the General Fund.

### Gaming Board Support Agencies

Several state agencies provide support to the Gaming Control Board. Their budgets are submitted to the Board, which then has the responsibility of reviewing, approving and submitting those budget requests. The three agencies are closely involved with the day to day operation and regulation of operating facilities. The Department of Revenue is the manager of the central computer system which keeps track of all operating facilities in the Commonwealth. The Office of Attorney General and the Pennsylvania State Police work with the Board to assist with background checks, investigations, regulatory and legal issues. Below are the proposed budgets for fiscal year 2010-11:

Department of Revenue:       \$10.648 million  
Attorney General:             \$ 940,000  
Pennsylvania State Police:   \$17.286 million

### Number of Active Slot Machines through January 30, 2010

<b>Facility</b>	<b>No. of Slots</b>
<b>Mohegan Sun</b>	<b>2,466</b>
<b>Philadelphia Park</b>	<b>3,294</b>
<b>Harrah's Chester Downs</b>	<b>3,000</b>
<b>Presque Isle</b>	<b>1,994</b>
<b>The Meadows</b>	<b>3,722</b>
<b>Mount Airy</b>	<b>2,459</b>
<b>Penn National</b>	<b>2,353</b>
<b>Beth Sands</b>	<b>3,249</b>
<b>The Rivers</b>	<b>3,000</b>
<b>Total</b>	<b>25,538</b>

### Table Games

In January, 2010, the General Assembly expanded legal gaming in Pennsylvania to include table games when it enacted Act 1—2010. With the legalization of table games at licensed slot facilities throughout the commonwealth, licensees will be required to pay a licensing fee of \$16.5 million to operate table games at Category 1 and Category 2 facilities. Category 3 facilities will be required to pay a licensing fee of \$7.5 million to conduct table games. If any current Category 1 or 2 licensee files a table game petition after June 1, 2010, the authorization fee increases to \$24.75 million; the fee for a Category 3 licensee that files after June 1, 2010 is \$11.25 million.

The initial tax rate is 16% of gross table games revenue, comprised of 14% to the state, 1% to the host municipality and 1% to the county. Facilities located in Philadelphia will remit 2% for local share payment. After two years of operation, the tax rate to the state will be reduced to 12% for an overall tax rate of 14%.

This licensing fee, coupled with a tax on gross table games revenue is expected to provide \$200 million in General Fund revenues in fiscal year 2009-10 and \$120 million in General Fund revenues for fiscal year 2010-11. Licensing fees and taxes on Gross Table Games Revenue will be deposited in the General Fund. However, when the balance of the Budget Stabilization Reserve Fund (Rainy Day Fund) reaches \$750 million, the state share of Gross Table Games Revenue will thereafter be deposited into the Property Tax Relief Fund.

## **DEPARTMENT OF HEALTH**

### Health Care Associated Infections

The 2010-2011 proposed budget of \$1.3 million for this program reflects that there is a slight increase of 1% from the 2009-10 fiscal year. This program is a relatively new program that emanated out of the Governor's package of bills for Health Care reform. Act 52 of 2007 created this program to reduce pain and suffering to patients and manage health care cost. Patients with an infection acquired in a hospital are six times more likely to die than a patient who does not develop an infection. The Department, through this program, established criteria to decrease infections in health care facilities. For initial start-up – facilities must demonstrate a 10 percent reduction in infections reported as compared to baseline data. In the final stage of the program disease trends are determined and corrective action is recommended abating health risks.

### Drug and Alcohol Programs

The Assistance to Drug and Alcohol Programs is budgeted to receive \$41.7 million; this was the same amount as the 2009-10 fiscal year. These funds are allocated to Single County Authorities (SCA) in various counties throughout the state. The SCA contract is for Drug and Alcohol services in the counties they serve. These drug and alcohol services include: prevention, intervention and treatment. Treatment can include: outpatient counseling, rehab, and partial hospitalization. The funding for this program is always in dire need for the many clients that it serves and many more that are on long waiting lists, especially in times of economic downturn.

### AIDS programs

The 2010-11 budget plans to fund the AIDS Program at \$7.62 million. This was 1% less than it received in the 2009-10 fiscal year. There are many program activities within this single program area such as counseling, and testing. The purpose is to develop a coordinated health care strategy to prevent high risk behaviors. Services are centered on community intervention projects for at-risk populations and the provision of care and case management, for persons infected with AIDS/HIV.

### Cancer programs

The Cancer Control program is budgeted to receive \$828,000 for the 2010-2011 fiscal year, or a loss of 1% from the 2009-10 state fiscal year. The funds from this program supplement other cancer funds. These programs provide specialized care to those who suffer from cancer. Additionally, statistical information is kept by the Department to monitor the cases of cancer and the information is updated on the Internet.

### State Health Care Centers

This program area is projected to receive \$22.96 million in the 2010-11 state fiscal year. Last year this line item received \$22.8 million. This was one of the programs in the department that did receive a slight increase. There are almost sixty centers dotting Pennsylvania. These centers provide basic health care to children by offering vaccinations, inoculations, medical exams, and preventive tests. Many of these centers are located in areas of the state that are under served or un-served.

## **HISTORICAL AND MUSEUM COMMISSION**

The Historical and Museum Commission provides state and local museum assistance. The General Government Operations appropriation includes funding for the Commission's Maintenance Program which used to be a separate appropriation. For 2010-11, the Governor is recommending that the GGO appropriation is reduced 1 percent from what was appropriated in the current year. This amount is equal to the current available level, as the Governor has placed 1 percent in budgetary reserve.

The Governor is including \$8.0 million from the Keystone Recreation, Park and Conservation Fund for historic site development for 2010/11. This funding was not available in 2009/10, as Act 10-A made a one year transfer of these funds to the general fund.

## **Museum Assistance Grants**

The Governor eliminates funding for the Museum Assistance Grant Program. In the current year \$1.8 million was appropriated, however the Governor has placed \$500,000 in budgetary reserve, at least temporarily. The Museum Assistance and Local History Grant Program is a competitive financial assistance process available to all qualified history related institutions within Pennsylvania.

## **Non-preferred Museums**

Funding for the individual museums that traditionally receive separate non-preferred appropriations is not included in the proposed budget. In the current year, only the University of Pennsylvania Museum has received funding to date, and the Governor has placed half (\$57,000) into budgetary reserve.

Cultural Preservation Assistance is also not funded in the proposed budget. This program was established to fund cultural entities, including those museums whose non-preferred bills were not enacted. In the current year, the entire \$3.1 million has been placed in budgetary reserve.

## **DEPARTMENT OF INSURANCE**

### **Children's Health Insurance Program (CHIP)**

Enrollment in CHIP will reach approximately 208,500 children during FY 10/11. Current enrollment in the CHIP program is 197,276 as of January 1<sup>st</sup>, 2009. The Governor's 10/11 budget includes \$100 million in state funds, an increase of \$3.3 million over current year funding level; \$301 million in federal funds; and \$36.3 million from the cigarette tax for CHIP.

### **Adult Basic**

The adultBasic program provides basic health insurance to uninsured adult Pennsylvanians with a net family income no greater than 200% of the Federal Poverty Income Guidelines (FPIG) (\$42,000 for a family of four). As of January 31<sup>st</sup>, 2010, enrollment in the adultBasic program was 40,685, while the adultBasic waitlist reached an all time high of 370,000 Pennsylvanians, more than double the number in January 2009.

As States across the nation are beginning to enact bolder and bolder reform initiatives to tackle the problems of burgeoning health care costs and growing uninsured populations, Governor Rendell plans to make changes to the adultBasic program beginning March 1, 2010.

Effective March 1, 2010, there will be a fee increase for those enrolled in adultBasic as well as for those on the waiting list. The proposed changes to the adultBasic program are to help account for the rising cost of insuring Pennsylvanians without making cuts to the services provided. In the last two years, the number of people on the adultBasic waiting list has gone from approximately 123,000 to 370,000. Due to the large increase in the number of people on the waiting list, there has also been an increase in the number of people purchasing adultBasic coverage while on the waiting list. The cost increases are necessary because of static funding to a program with increasing costs, which have been attributed to medical inflation as well as increased use of medical services.

Below is a summary of the cost increases:

**adultBasic Rate Changes**

If you are now paying...	Effective March 1, 2010 you will pay...
\$35.00 while in the program	\$36.00
\$330.00 average while on the waitlist	\$600.00

**adultBasic Benefit and Cost Changes  
(effective March 1, 2010)**

	<b>Old Benefit</b>	<b>New Benefit</b>
Primary care physician (PCP) office visits	\$5 copay	\$10 copay (except for preventative care)
Specialist doctor office visits	\$10 copay	\$20 copay
Emergency room copay	\$25 copay	\$50 copay
Inpatient hospital services	No charge	10% coinsurance/\$1,000 max per year for all coinsurance; 2 stays per year
Physical, occupational and speech therapy	\$2,500 max per year, combined	10% coinsurance/\$1,000 max per year for all coinsurance; 15 visit/yr combined
Diabetic supplies	No charge	10% coinsurance/\$1,000 max per year for all coinsurance
Outpatient surgery (short procedure unit & facility)	No charge	10% coinsurance/\$1,000 max per year for all coinsurance
Cardiac rehabilitation (36 sessions for a 12 week period)	No charge	10% coinsurance/\$1,000 max per year for all coinsurance
Chemotherapy, dialysis, or radiation	No charge	10% coinsurance/\$1,000 max per year for all coinsurance
Pulmonary rehabilitation (18 sessions per calendar year)	No charge	10% coinsurance/\$1,000 max per year for all coinsurance
Respiratory therapy (18 sessions per calendar year)	No charge	10% coinsurance/\$1,000 max per year for all coinsurance
Home infusion	No charge	10% coinsurance/\$1,000 max per year for all coinsurance
Home health care	No charge	10% coinsurance/\$1,000 max per year for all coinsurance
Skilled nursing facility care (60 days per calendar year)	No charge	10% coinsurance/\$1,000 max per year for all coinsurance
Inpatient rehabilitation therapy (45 days per calendar year)	No charge	10% coinsurance/\$1,000 max per year for all coinsurance

The adultBasic program is supported by the Community Health Reinvestment (CHR) fund, Tobacco Settlement fund, and state general funds. For FY 10/11, the Governor is proposing to support the adultBasic program with \$184 million from CHR, an increase of \$59 million over current year; \$16 million from Tobacco Settlement fund, a decrease of \$22.3 million from current year spending level; and \$3 million in general fund support.

The CHR agreement is set to expire December 31, 2010. To date, there is no agreement in place for the four PA Blue Cross insurers to continue contributing to the CHR. However, in an effort to address the increasing needs of the program, the Governor's proposed FY 10/11 budget assumes the continuation of the CHR agreement and tobacco settlement funds in order to provide health care coverage to 50,000 people.

The federal health care legislation that is pending in congress could be of assistance in helping to address the adultBasic waitlist, however, the majority of the federal legislation will not take effect until 2013.

## **JUDICIARY**

The Governor has recommended an appropriation for Judiciary in the amount of \$276.86 million in the budget for FY 2010-11 which will provide level funding from FY 2009-10.

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 staff.

The Governor has recommended level funding for the following programs.

- Juror Cost Reimbursement--\$1.085 million.
- County Court Reimbursement--\$30.235 million
- Senior Judge Reimbursement --\$1.335 million
- Gun Court Reimbursement--\$1.276 million
- Court Consolidation--\$1.640 million.

<b>Judicial Department</b>	<b>FY 2010-11 Appropriation</b>
Supreme Court*	\$46,932,000
Superior Court	\$26,415,000
Commonwealth Court	\$16,0540,000
Courts of Common Pleas	\$83,903,000
Magisterial District Justices	\$59,637,000
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 proposed appropriations for the Judicial Department are enhanced by a fee increase included in Act 49--2009. That legislation imposed additional fees on all civil and criminal filings for a period of twenty-five (25) months. The additional fee would be in the amount of \$13.50 and added to the current filing fee of \$10 that is shared between the Judicial Computer System Account and the Access to Justice Account providing funds to legal aid services.

The additional fees in Act 49-2009 would be distributed as follows:

- \$10.25 to the Judicial Computer Account.
- \$2.25 to the Criminal Justice Enhancement Account to fund full time District Attorney Offices. (This amount will be a permanent fee increase)
- \$1 to the Access for Justice Account for legal services.

The following amounts are expected from the following fees:

<b>Account</b>	<b>Fee</b>	<b>FY 2010-11 Estimated Revenue</b>
JCS	\$10.25	\$29.45M
CJEA—DA's	\$2.25	\$6.46M
ATJ—Legal Services	\$1	\$2.87M
Total	\$13.50	\$38.78M

## DEPARTMENT OF LABOR AND INDUSTRY

Since the start of the national recession, Pennsylvania has undoubtedly experienced one of its worst phases of unemployment to date. In December 2009, the Commonwealth's seasonally adjusted unemployment rate rose to 8.9 percent, up four-tenths of a percentage point from November. The total number of unemployed rose to 560,000 in December 2009, up 19,000 over the prior month and an increase of approximately 150,000 since December of last year. However, the Commonwealth is fairing much better compared to other parts of the nation where unemployment has risen by much more dramatic percentages. PA's unemployment rate was still below the national rate of 10% for the month of December and the state's rate has now been equal to or below the national average for 82 of the past 84 months.

To combat high unemployment rates in the state and nation, the President pushed back the filing deadline for unemployment extension claims from December 2009 to February 2010 and signed into law an additional extension of federal jobless benefits. The law enacted extended jobless benefits by 13 weeks for Americans in all 50 states who exhaust all available benefits before November 1, 2009 and by 20 weeks for states where the unemployment rate is 8.5% or higher. When added to the regular 26 weeks of unemployment benefits, and the 53 weeks of emergency unemployment compensation, this extension created the potential for an eligible claimant in PA to qualify for up to 99 weeks of benefits.

With the amount of benefits currently offered, and the growing number of applications for these benefits, concern has been raised regarding the solvency of the Unemployment Trust Fund. The fund, which is administered by the Department of Labor and Industry, has been exhausted since March of 2009. As a result, PA has had to borrow \$2 billion from the federal government to cover its share of payments to eligible claimants. As such, the solvency of this fund will be an issue that is critical for examination as the General Assembly considers crafting the FY 10/11 budget.

As for specific spending amounts proposed for the department in FY 10/11, the budget recommends a total state appropriation of \$88.9 million. This is approximately the same amount available to the department in the revised FY 09/10 budget. The levels of funding proposed for each appropriation within the department for FY 10/11 are roughly identical to the spending levels revised by the Governor when he placed monies in budgetary reserve. However, some appropriations proposed for the department in FY 10/11 are actually equal to the amounts originally enacted in the FY 09/10 budget because they were not affected by the Governor's revisions. \$3.7 million of the department's funding was placed in budgetary reserve in FY 09/10, primarily consisting of reductions to the following:

- The elimination of the New Choices/New Options program (\$1.5 million)
- A \$700,000 reduction to the Training Activities line item
- A \$533,000 reduction to the Pennsylvania Conservation Corps line item
- A \$290,000 reduction to the Industry Partnerships line item
- A \$250,000 reduction for Worker's Compensation Payments
- A \$118,000 reduction to the Occupational and Industrial Safety line item

The only appropriation proposed for the department which is not identical to originally enacted or, if adjusted, revised FY 09/10 spending levels is the department's general government operations. This appropriation has been set at \$14.1 million for FY 10/11, while its revised amount for FY 09/10 was \$13.4 million.

## **LOTTERY FUND**

The Lottery Fund is expected to emerge from the 2010-11 budget year in satisfactory shape with a balance of \$116 million. The balance at the end of this current fiscal year will be a bit better at \$127 million. Ticket sales for the current budget are expected to decrease by about 2% from the previous year. The Governor expects ticket sales to grow by about \$49 million or 1.6% in the 2010-11 fiscal year. The addition of a new multi-state jackpot game, Mega Millions, could help sales.

The Governor also expects expenditures to stay the same or decrease in the upcoming budget year. He is anticipating that funding will stay the same for Medical Assistance – Long Term Care and \$10 million less will be needed for PACE. He is also predicting no additional money will be needed for the property tax and rent rebate program. That program usually spends less each year, so flat funding does make sense. Most of the other programs funded out of the Lottery Fund have small increases. Total expenditures from the fund are expected to decrease by \$48 million or 3%.

Better ticket sales and lower expenditures create a fairly healthy balance for the Lottery Fund at the end of 2010-11.

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

The proposed appropriations for the Department of Military and Veterans Affairs see no significant changes over the prior fiscal year aside from the following:

- The restoration of the department's Armory and Maintenance Repair line item, which provides funding for the maintenance and repair of National Guard armories, facilities and installations. Funding for the line is set at \$500,000 after it was eliminated in FY 09/10 due to fiscal constraints.

- An increase of approximately \$4 million for the state's system of veteran's homes. This increase raises the total appropriation for the six state sponsored veteran's homes from the revised amount of \$81.2 million in FY 09/10 to \$85.3 million in FY 10/11.
- An increase of \$1 million for the department's Education Assistance program, which provides tuition grants to Pennsylvania National Guard members who attend approved in-state two or four year colleges.
- The elimination of the department's Civil Air Patrol program. The elimination of this program would result in \$110,000 in savings for the state. The overall objective of the program is to provide assistance to the National Guard and State Police in search and rescue missions, disaster response, homeland security and counter drug operations.

## **EMERGENCY MANAGEMENT AND HOMELAND SECURITY**

The Emergency Management Agency is set to receive a proposed \$12.4 million in state funds for the 2010-11 FY. With level funding or minimal reductions to all lines but one, PEMA comes through with most of their state funding intact. The largest and only significant cut in state funding comes to the Regional Events Security, which is facing a 60% cut with a proposed allocation of \$2 million for the 10-11 FY.

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. However, their expected \$213.2 million in federal funds represents a \$27.4 million reduction in funds. It should be noted that the funds for hazardous materials planning and training has been cut almost in half, and \$369,000 for the Assistance to Firefighters Grant Program has been cut completely.

In other funds, PEMA is set to receive \$108 million from the Wireless E-911 Emergency Services Fund. 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.

PEMA's total of \$390.6 million is an almost 10% reduction from the \$428 million they received in 2009-10 FY.

## **PENSIONS**

The Governor's budget proposal contains a plan to begin to deal with the pension spike that is coming in 2012-13. The increase will be from \$560 million in commonwealth contribution to a projected \$3.6 billion annual contribution in 2012-13 to the two funds, if nothing is done. The Governor proposes an actuarial "fresh start" for both PSERS and SERS. The current liabilities of the systems would be re-amortized over 30 years. The proposal also limits the increase in the growth of the employer's contribution to an annual 3% of payroll. For this budget year, however, the increase will be further limited to a 1% increase.

These two changes would have the effect of reducing the 2010-11 pension contribution from nearly \$1 billion to \$600 million. The collar on annual increases would help phase in the increases for ten years and allow the unfunded liability be gradually eliminated without creating a crisis for the general fund and the school districts while still protecting retirees.

## **STATE POLICE**

The General Government Operations budget is critical to the Department because it is the administrative framework that provides and maintains the state trooper complement. The 2010-11 budget proposes \$173.3 million from the General Fund. The State Police is expected to maintain a high complement level in the 2010-2011 budget. This budget will provide sufficient funding for a October 2010 graduating class of 100 troopers which will add to the ranks of fellow troopers. Traffic safety is one of the largest responsibilities of the State Police, where countless police patrol our highways. They also ensure many communities are safe throughout the Commonwealth; especially those communities that have no law enforcement personnel. There are some legislative proposals that have provided the State Police additional funds based upon population or the amount of local police they have supplanted.

Additionally, the state Police is budgeted to receive \$493.3 million in the Motor License Fund for the 2010-11 fiscal year. In the 2009-10 fiscal year it received \$479 million, an increase of \$14.3 million or 2.9 %. This additional money will support the state trooper complement and reduce the incident of crime through prevention programs such as those that operate in communities throughout Pennsylvania. \$11 million from the Motor License Fund in this budget will also fund patrol vehicles that receive heavy use. The older vehicles are retired after 80,000 miles.

## DEPARTMENT OF STATE

The Department of State is poised to see only a slight reduction in state funds, only a 5% cut based on the proposed budget, for a total of \$9.6 million for the 2010-11 FY. The largest cut, of about 45%, is slated to come from County Election Expenses, with only \$400,000 proposed.

The only other reductions in state funds are modest cuts to the GGO, the statewide uniform registry of electors, voter registration and lobbying disclosure for a total of \$175,000 in cutbacks.

However, these cuts are offset by an increase in funds appropriated from restricted revenue accounts, which is comprised of various registration and licensing fees. The Department will see its restricted revenues increase from \$50.5 million to \$51.8 million in the 2010-11 FY.

This year, the Department is expected to receive just over \$40 million in federal funds, which is only about a 3.5% decrease from the previous fiscal year. When all is factored in, the Department's funds will add up to \$102.3 million.

## DEPARTMENT OF TRANSPORTATION

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

In the 2010-11 proposed budget \$765 million is to be used on Pennsylvania highways for the repair, resurfacing and reconstruction. Pennsylvania has 39,822 miles of roadway to maintain and it is the fifth largest state –owned roadway network in the nation. *Each year* PennDot works to repair 3,946 miles of roads. The General Assembly and the Governor has consistently directed attention and funding to resolve a large backlog of bridge maintenance needs. Investments have risen from \$259 million in 2002 to almost \$1 billion per year. For the first time the number of structurally deficient bridges in the state declined, from 6,034 in 2008 to 5,911, and as of July, the number stood at 5,881.

The 2010-11 budget proposed by the Governor for Highway and Safety Improvements includes \$101 million. PennDot has the responsibility of executing and developing the most critical deficiencies on state highways, including safety and mobility issues. In addition to this program the Expanded Highway and Bridge program largely funded from Act 44 also contributes significantly to Pennsylvania's greatly expanded construction and maintenance program. The Governor is projecting that this program will be funded at \$477.5 million.

## Act 44

Presently, the Turnpike Commission continues to fully fund its obligations under Act 44. In the 2009-10 fiscal year the Commission will provide \$850-\$900 million in funding for highway, bridge and transit programs. These funds augment millions of state dollars that have been dedicated to repair and reconstruct over 40,000 miles of highways and 1,800 badly deteriorating bridges that are structurally deficient. The Turnpike has recently increased its fares on its toll roads by 25% in their effort to operate their highway system and at the same time provide critical dollars to Pennsylvania's infrastructure.

The Turnpike Commission has re-submitted its amended application to toll I – 80 Interstate highway a few months ago. At the present time the Federal Highway Administration has not ruled on this matter. Without this federal consent annual lease payments to the commonwealth from the Turnpike Commission will be reduced by more than \$450 million beginning in the 2010-11 fiscal year. This potential revenue loss would cost transit agencies more than \$150 million annually in capital support. The Department of Transportation would lose more than \$300 million for highway and bridge improvements.

### **Transit Programs**

Since mass transit programs are now funded directly through the Public Transportation Trust Fund they will not be impacted by the budget cuts necessitated by the economic downturn. The governor's budget is assuming that permission to toll I-80 will be approved by the federal government. Act 44 will provide the same amount in dedicated capital support during the 2010-11 fiscal year as in the current year. This will provide \$400 million to transit agencies through Act 44 funding during the next fiscal year. There will also be a 2.5% COLA beginning in 2010-11 paid to transit.

Lottery Fund supported Shared Ride funding is budgeted to increase modestly by \$1.3 million to total more than \$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 2010-11 fiscal year in addition to millions of dollars in federal support through the economic stimulus package.

## **MOTOR LICENSE FUND**

The Governor proposed that revenues from the Motor License Fund for the 2009-10 fiscal year would be \$2.636 billion. In this year's budget, the Governor revised his estimate to \$2.600 billion. According to the Governor's adjustments; gas and diesel fuels were \$19.490 million short; licenses, registrations and fees missed their mark by \$11 million and other revenue fees did not reach their goal by \$4.640 million as expected.

The 2010-11 budget year carries an ending balance from the 2009-10 fiscal year of \$105.5 million. This balance added to the projected revenues for the 2010-11 fiscal year of \$2.619 billion will provide available funds for expenditures for the 2010-11 budget year of \$2.724 billion. The 2010-11 budget plans to expend \$2.708 billion. (The 2010-11 budget year assumes that the Motor License Fund will receive \$512 million from Act 44. This presumes that the Federal Highway Administration will approve the Pa. Turnpike's amended application for tolling I-80 interstate).

## **DEPARTMENT OF PUBLIC WELFARE (DPW)**

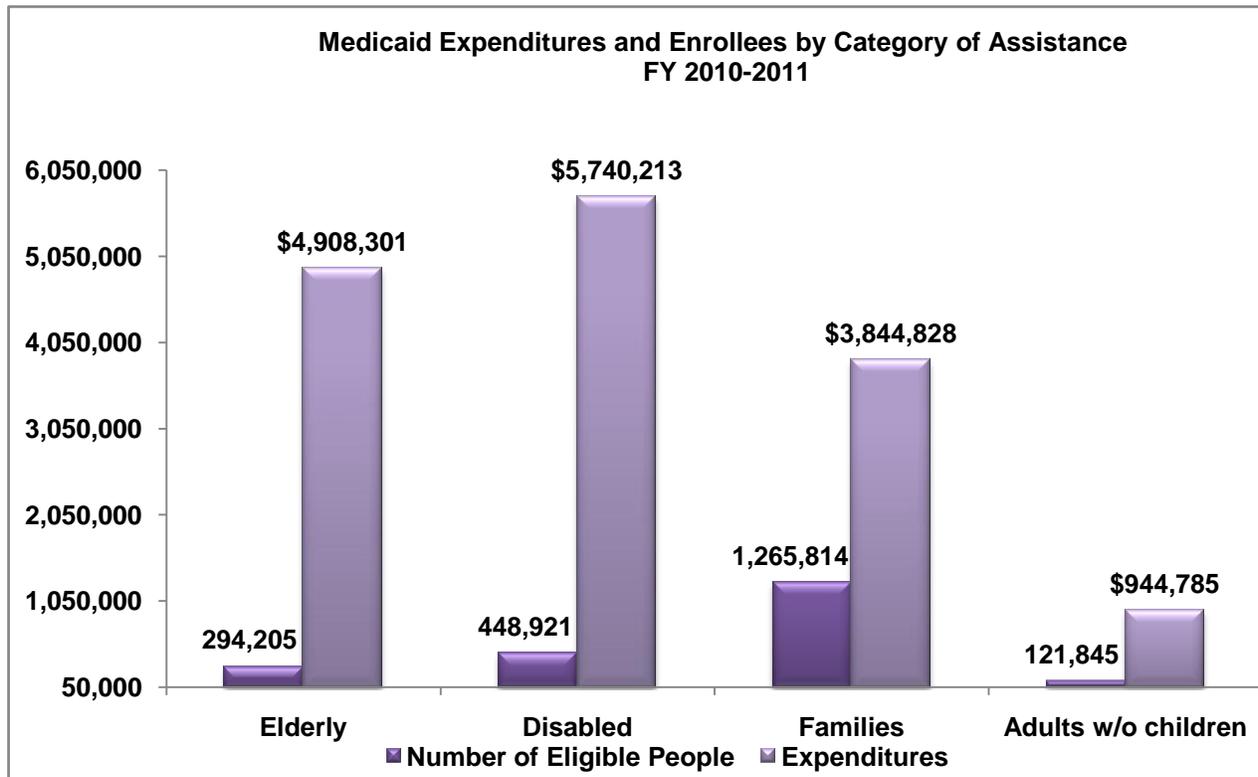
The Commonwealth's General Fund total expenditures are projected to grow by \$1.2 billion or 4.1%, while DPW's General Fund spending will grow by \$413 million or 4.9%. Despite constrained general fund spending, the Department's budget still contains expansion in program spending and maintains its commitment to ensure all Pennsylvanians currently receiving services maintain those services.

### **Medical Assistance**

The most significant issues in the department's budget relate to Medical Assistance. This is part of a NATIONAL TREND. Caseloads are increasing. For FY 2010/2011, the Medical Assistance average monthly caseload of 2,130,785 assumes a 3% growth above the enacted FY 2009/2010 budget level of 2,068,699. Pennsylvania has the 3<sup>rd</sup> highest elderly population and the fastest growing number of persons over 85. While the elderly and disabled are only 35% of the total Medical Assistance population, they account for 69% of the Medical Assistance expenditures. Over the last 10 years, the Medical Assistance program grew at an annual rate of 11%.

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

	<b>% of Caseload</b>	<b>% of Dollars</b>
Disabled	21%	37%
Elderly	14%	32%
Children & Families	59%	25%
Adults without children	6%	6%



**“Big 5” Medical Assistance Appropriations**

	FY 09/10	FY 10/11	Difference
Outpatient	\$ 438,191	\$ 365,521	(\$72,670)
Inpatient	\$ 373,515	\$ 393,638	\$20,123
Capitation	\$2,127,765	\$2,490,150	\$362,385
**LTC	\$ 598,688	\$ 618,083	\$19,395
Medicare Part D	\$ 451,863	\$ 482,634	\$30,771
<b>Total</b>	<b>\$3,990,022</b>	<b>\$4,350,026</b>	<b>\$360,004</b>

\*\* Long-term living costs for the disabled (Services to Persons with Disabilities and Attendant Care appropriations) and the elderly (Long-term Care) are funded within the new Department of Aging and Long Term Living. Please see this section for a summary on these appropriations.\*\*

To offset cuts to health benefits and/or eligibility for medical services in this economic downturn, the President's American Recovery and Reinvestment Act includes a separate allocation of \$87 billion for states' Medicaid programs. Currently, the federal government pays approximately 55% of Pennsylvania's medical assistance costs. The President's plan proposes to temporarily increase the Federal Medicaid matching rate through the end of federal fiscal year (FFY) 2010. The Governor is estimating Pennsylvania's share of the \$87 billion would be approximately \$4 billion over 27 months. The FY 2010/2011 budget anticipates \$1.8 billion in additional federal support to be used to offset the cost of the Medical Assistance program. Currently, Congress is considering a short term extension, an additional three quarters or approximately \$848 million, to the federal government's increased share of Medical Assistance matching funds as originally enacted in ARRA. The Governor's proposed FY 2010/2011 budget anticipates the State will receive the additional three quarters of enhanced FMAP funds through September 30, 2011. The enhanced FMAP funds will mitigate the need for drastic service cuts to the state's Medical Assistance program. However, 2011 will be the final year for the enhanced FMAP funds. The expiration of the stimulus program will leave the state in a precarious financial situation in budget year FY 2011/2012. The lack of enhanced FMAP and fiscal stabilization funds will create a \$2.3 billion gap that will need to be closed by further service efficiencies, program cuts, or new state revenue growth.

### **Medical Assistance Cost Containment Initiatives**

The Administration is proposing to reduce the 2010/2011 Medical Assistance state fund costs through a number of Cost Containment initiatives totaling \$ 137.1 million:

- 1) **Increased Pharmaceutical Rebates:** Pending federal legislation, the department is assuming additional revenues by collecting federal rebates on drug expenditures of the Medicaid Managed Care Organizations (MCOs), resulting in substantial savings to the Commonwealth. Currently under federal law, the MCOs are not allowed to collect the same rebates as the state's Fee for Service program (FFS).

Total estimated savings in FY 2010/2011 is \$102.5 million.

- 2) **Increased Pharmacy Efficiencies:** The department plans to further refine pharmacy utilization management to ensure patient safety and enforce appropriate medication prescribing. The modifications planned are consistent with commercial coverage of pharmacy services and will increase medication compliance rates, improve clinical outcomes, and further control expenditures. Changes include expansion of automated prior authorization and the special pharmacy drug program.

Total estimated savings in FY 2010/2011 is \$4.6 million.

- 3) **Reduced Fraud and Abuse and Expanded Third-Party Liability:** Once again, the department will introduce legislation for a State False Claim Act and strengthen the Recipient Restriction Program. In addition, several administrative changes will be implemented to strengthen current efforts to identify and pursue cases of provider and recipient fraud, abuse, and waste as well as increase third-party payer resources.

Total estimated savings in FY 2010/2011 is \$4.4 million.

- 4) **Reduce Hospital Supplemental Payments:** The Governor is proposing to reduce supplemental payments to hospitals through across the board reductions.

Total estimated savings in FY 2010/2011 is \$25.6 million.

### **Medical Assistance Rates**

The Governor proposes the following for Medical Assistance providers:

**Managed Care Organizations:** \$130 million to provide an actuarially sound rate increase and \$29 million for prior year Pay for Performance program payments.

During FY 2010/2011, the Governor has proposed no rate increase for nursing homes or hospitals.

### **Income Maintenance**

The FY 2010/2011 state appropriation for County Assistance Office represents a \$20 million increase over current year funding level. The \$20 million increase is needed to maintain current operations and to replace federal funds not available in future years.

The appropriation for Supplemental Grants for the Aged, Blind and Disabled will decrease by \$5.3 million. The decrease in funding reflects revision to the recipient grant amounts proposed for FY 2010/2011.

The number of people receiving Temporary Assistance for Needy Families cash assistance has increased by 9% between December 2008 and December 2009, reversing an almost 4 year trend of caseload declines. The recent caseload increases reflect the acute impact of the national economic climate on the ability of low income Pennsylvanians to obtain and keep jobs. For FY 2010/2011, the Governor is proposing a net increase of \$9.6 million for cash grants.

## **Mental Health and Mental Retardation**

The Mental Health program will be reduced by \$18.4 million over current year funding. The reduction in funding is due to an increase in prior year federal funds of \$20 million and a savings of \$12.9 million for closing Allentown State Hospital. The Governor is proposing an increase of \$14.3 million to provide home and community based services for the 155 individuals currently residing at state hospitals.

The Governor is not recommending a COLA for Mental Health Services.

Building on an initiative the Governor proposed in 2007, the Mental Retardation program will receive a substantial increase in FY 2010/2011, \$17.6 million: \$11.9 million or a 7.6% increase for Community Mental Retardation Base Program and a net increase of \$6 million for Community Mental Retardation Waiver program services. The waiver program increase will maintain and annualize current services and provide home and community based services for 150 additional persons with mental retardation; reflects 81 individuals transferring from ICF/MR; and reflects 13 additional individuals transferring from the mental health program.

The Early Intervention appropriation includes \$5.3 million to provide early intervention services to an additional 1,172 children ages birth to 3 years of age. These program services are intended to assist families in meeting the special needs of their children. An additional \$2.8 million is recommended to annualize children added during FY 2009/2010.

\$4.7 million has been proposed to continue the current program and provide additional services for 226 individuals with Autism.

Community MH/MR Programs and the Early Intervention program do not contain funding for a cost of living adjustment.

## **Services for Children**

Child Welfare funding will increase from \$1.05 billion in 2009/2010 to \$1.07 billion in 2010/2011. This includes \$24 million to support county needs-based budgets. In addition, the Governor has proposed level funding for Child Care Services and the Nurse Family Partnership program during FY 2010/2011. The childcare assistance program provides a mechanism to monitor the quality and availability of childcare for TANF and former TANF families. In FY 09/10, Childcare assistance will receive a net increase of \$535 thousand for subsidized child care services. The Governor has eliminated a COLA for the social programs during FY 2010/2011.