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GENERAL FUND

2012-2013 Fiscal Year

The Governor assumes that the current revenue surplus of $153 million will grow slightly through the end of the fiscal year to close at a surplus of $232 million. That would be a surplus of only .8% from the official revenue estimate of $28.6 billion which the Governor certified last July. The Independent Fiscal Office is expecting a smaller revenue surplus at the end of this fiscal year of $70 million.

The corporate net income tax is currently running $200 million over the official estimate and the big collection months are still ahead of us. Sales tax collections are, however, currently $184 million below estimate and have been below estimate nearly every month of this fiscal year. Collections of the personal income tax (PIT) are much closer to the official estimate as they are $76 million over estimates.

The Governor anticipates a need for $96 million for supplemental appropriations, which will primarily be within the Department of Public Welfare. He is expecting to find lapses of $110 million so the 2012-13 fiscal year would end with a general fund surplus of $543 million, that will be used to help fund the budget that was presented today for 2013-14.

2013-2014 Fiscal Year

Overview:

The Governor's proposed budget is fixated on pensions. The details of the pension proposal are available later in this report, but the Governor's proposed budget is balanced by an expected $175 million savings that would be realized through changes in pension costs and those savings would require benefit changes for current employees which may or may not be legal.

Revenues:

Next fiscal year's budget anticipates revenue growth from existing taxes of 1.32 percent or $382 million, which suggest a conservative growth estimate for a recovering economy.

Expenditures:

The Governor is proposing expenditures of $28.4 billion for the 2013-2014 fiscal year. That would be an increase of $688 million or 2.5 percent more than was appropriated this fiscal year. In his mid-year budget briefing the Governor listed $1.3 billion in expenditure costs that were unavoidable. Those costs included $511 million in increased pension costs most of which are funded in his budget and $650 million in increased medical assistance and long term care costs. So, the Governor's budget is really a $700 million decrease in the bulk of most discretionary state programs.

Below is a simplified balance sheet (financial statement) that shows what the Governor believes the 2013-14 budget should look like:

	(Dollars in Millions)
Beginning Balance:	$543
Expected Tax Revenues	$29,250
Tax Refunds	- $1,325
Funds Available	**$28,469**
Expenditures	$28,439
Ending Balance	**$22.5**

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. It is important to remember that each Department will have increased costs for both health care costs and pension benefits, so expenditures that would be funded at the current year's level are in reality reductions in the amount that will be spent on the functions of that Department. The Governor stated in his budget document that if he gets his pension savings he will reduce the agencies' budgets by the amount that they would save and the numbers presented in this report reflect those transferred savings.

2013-2014 TAXES

While the Governor sees continuing growth in tax revenue for 2012-2013, by adding an additional $232 million of expected tax revenue by the end of the fiscal year, he is not so optimistic about the growth over the 2013-14 fiscal year, as his expected growth is a mere $382 million or 1.32 percent. This is a fairly small growth rate for this time in a recovering economy.

The Governor also proposes to allow the scheduled capital stock and franchise tax to be fully phased out starting on January 1, 2014 which will reduce revenues by $362 million. He also states that he would like to begin reducing the corporate net income tax rate from 9.99% to 6.99% by 2025. This budget doesn't contain any decrease in the tax as his proposal would not start until 2015 when there would be a reduction of .1%. Before there is a commitment to reducing the CNI tax over ten years it is worth remembering that the 10 year commitment to end the capital stock tax will be completed in January 2014 – a full 16 years after it was begun.

To further enhance revenues the Governor proposes changes worth $47 million. Nearly all of the increase is from a proposal to transfer half of the revenue that has been pledged to the Race Horse Development Fund and a "redirection" of some Motor License fine revenue into the General Fund.

The list of the Governors proposed tax changes for the 2013-14 fiscal year are:

- Increase the NOL cap from $3 million to $4 million. Reduces revenue by $11.4 million
- Repeal the corporate loans tax. Reduces revenue by $700,000
- Make the location of the customer the situs of sales for the corporate net income tax. Increases revenues by $7 million.
- Adjustment to realty transfer tax to make more transactions subject to the tax. Increases revenues by $4.3 million.
- Additional filing requirements to the personal income tax for estates and trusts. Increases revenues by $2.6 million.
- Repeal of certain unnamed tax credits. Increases revenue by $500,000.
- Redirection of the some Motor License Fund fines. Places $29.5 million into General Fund.
- Transfers $15 million from Horse Race Development Fund into General Fund.

MOTOR LICENSE FUND

The Governor originally estimated that revenues from the Motor License Fund for the 2012-13 fiscal year would be $2.397 billion. In the 2013-14 budget, the Governor revised that estimate to $2.409 billion. According to the Governor's adjustments, liquid fuels taxes decreased by $3.7 million, motor licenses and fees increased by $10.9 million, and other motor license fund revenues increased by $4.8 million.

The 2013-14 budget year carries an ending balance from the 2012-13 fiscal year of $83.9 million. This balance added to the projected revenues for the 2013-14 fiscal year of $2.447 billion will provide available funds for expenditures for the 2013-14 budget year of $2.531 billion. The 2013-14 budget plans to expend $2.513 billion and leave an ending balance of $18.1 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 $37.8 million increase in revenue from FY 2012-2013 to 2013-2014. The change from FY 2012-2013 to the anticipated revenue of 2013-2014 represents an approximate 1.5 percent increase in revenue.

State police spending increased by $34.4 million, or nearly 6 percent, in the proposed budget to over $619 million. Motor License Fund support of the state police has increased by over 75 percent over the last decade. This also comes at a time when more revenues are trying to be directed to highways and bridges.

The Governor's proposed funding plan proposes to make some changes to some of the taxes collected that make up the Motor License Fund. The largest change is the proposal to uncap the average wholesale price used to calculate the Oil Company Franchise Tax. The tax is currently capped at $1.25 per gallon. In an attempt to lessen the impact on Pennsylvania's drivers, this budget proposes to reduce the Liquid Fuels Tax to 11 cents per gallon in 2013-14 and to 10 cents per gallon in 2014-15 and thereafter.

The Governor's plan also proposes to redirect certain motor vehicle fees to public transit and multimodal transportation programs and to authorize a fee option in lieu of suspension for driving without insurance.

DEPARTMENT OF TRANSPORTATION

Federal Transportation Funding

In July 2012, President Obama signed Moving Ahead For Process in the 21St Century (MAP-21). MAP-21 reauthorizes the Federal-aid highway program at the Congressional Budget Office's baseline level – equal to current funding levels plus inflation – for two fiscal years. The problem with this reauthorization, however, is that it still makes planning long term projects difficult. Long term, multi-year reauthorizations of federal surface transportation programs will sustain transportation investment which is desperately needed.

Highway and Bridge Construction and Maintenance

In the Governor's Fiscal Year 2013-2014 proposed budget, $820 million is to be used on Pennsylvania highways for repair, resurfacing, and reconstruction. This is an increase of $10 million from current year funding, or an increase of 1.2 percent. Pennsylvania has 39,750 miles of roadway to maintain and has the fifth largest state owned roadway network in the nation. Each year PennDot works to repair nearly 4,000 miles of roads. The General Assembly and the Governor have, in the past, directed attention and funding to resolve a large backlog of bridge maintenance needs. This, however, is no longer the case. The Department is anticipating being able to replace approximately 250 structurally deficient bridges in FY 2013-2014. This is down from 275 in the 2012-2013 fiscal year and 315 in the 2011-12 fiscal year. Without more investment into Pennsylvania's highways and bridges, the commonwealth will continue to lead the nation in the number of structurally deficient bridges. The Governor is anticipating approximately $130 million to be available this year for highways and bridges due to the initial uncapping of the Oil Company Franchise Tax.

The Governor's 2013-14 budget increases funding for Highway and Safety Improvements by $10 million to total $120 million. PennDot has the responsibility of executing and developing the most critical deficiencies on state highways, including safety and mobility issues. In addition, the Expanded Highway and Bridge program also contributes to Pennsylvania's expanded construction and maintenance program. The Governor is projecting that this program will be funded at $110 million. This is down $55 million from the current fiscal year, or a decrease of 33 percent.

Funding Crisis

Pennsylvania's transportation facilities have 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 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.

The Governor's Funding Proposal

Included in the 2013-14 budget proposal, is the Governor's much anticipated plan to fund transportation for the foreseeable future. Disappointingly, it falls woefully short. The main funding source for the proposal calls for the removal of the Oil Company Franchise tax cap over a phased in five year period. The Governor estimates that once fully phased in, this will generate approximately $1.9 billion in revenue per year. The plan also redirects certain motor vehicle fees to public transit and multimodal transportation programs. Once the full $1.9 billion is available, which will take five years; the funds will be distributed as follows:

- $1.2 billion PADOT roads and bridges
- $250 million dedicated for mass transit
- $200 million for local roads and bridges
- $80 million for Multi-Modal fund for ports, rail freight, aviation
- $85 million for PA Turnpike Commission for expansion and slip ramp construction

The Governor has stated that over the first five years, this plan will provide more than $5.3 billion in revenue. This may be true, however, the current need is $3.5 billion per year, and that gap grows the longer it is underfunded.

Also of note, is the Governor's plan to end the PA Turnpike's payments currently required under Act 44 in ten years. Currently, the turnpike pays $250 million per year to help fund transit, and $200 million per year to help fund highways and bridges. The Governor's funding plan calls for most of the $200 million to now go to transit as well. This will effectively blow a nearly half billion dollar hole in transit funding in ten years.

While the Governor has provided a starting point for developing a real plan, much work needs to be done to develop a meaningful, sustainable long term transportation plan for the commonwealth.

Transit Programs

Mass transit programs are now funded directly through the Public Transportation Trust Fund (PTTF) 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 percent share of the state sales tax, payments from the PA Turnpike Commission, and transfers from the Lottery Fund. The Governor's budget proposes to increase fund revenues through restructuring the Act 44 of 2007 payments and redirecting certain motor vehicle fees. Through these two moves, an extra $38.3 million is anticipated to be available for transit funding, for a total expenditure of nearly $850 million from the PTTF in fiscal year 2013-14. The Governor is anticipating carrying a balance of $41.7 million over from the current fiscal year into 2013-14 and ending FY 2013-14 with a balance of $31.4 million.

Of note is the creation of the new Multimodal Transportation Fund. The Governor's budget proposes to include Rail Freight and Intermodal Coordination, PennPORTS and Rail Freight Assistance in the Multimodal Operations appropriation in the Multimodal Transportation Fund.

Lottery Fund supported Shared Ride funding is budgeted to be flat funded at $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 2013-14 fiscal year.

The Governor's funding plan for transit contains a major flaw that will create a major funding crisis for transit agencies throughout the commonwealth. The Governor proposes to send a majority of the $200 million PA Turnpike Act 44 payment currently dedicated to highways and bridges to transit over a five year phase in period. Transit already receives a $250 million per year payment from the PA Turnpike as part of Act 44. After the five year phase in period, this will mean transit will be receiving over $400 million per year in Act 44 payments from the turnpike. The Governor's plan calls for ending these payments in ten years, blowing a nearly half billion dollar hole in transit funding. A long term sustainable transit funding source needs to be identified. This plan, in the long run, will simply make things worse for transit agencies across the commonwealth.

LOTTERY FUND

The Lottery Fund is expected to emerge from the FY 2013-14 budget year in excellent shape with a balance of $200.8 million, with an additional $50 million in reserve to satisfy the needs of the Rent and Property Tax Rebate program. An additional $150 million will be held in reserve as part of the agreement with the private manager. The balance at the end of FY 2012-13 will be $187 million. Ticket sales for the current budget are expected to increase by about 5.8% from the previous year. The Governor expects ticket sales to grow by about $277 million or 7.5 percent in the FY 2013-14.

In January, the Administration entered into a Private Management Agreement (PMA) for the management of the Pennsylvania lottery with the United Kingdom based company, Camelot Global Services PA LLC. The 20-year agreement promises big growth in the first 10 years and minimal growth, 1 percent each year, the remaining 10 years. It is expected that in order for Camelot to achieve such growth, the expansion of the lottery to include Keno is necessary.

In addition, the Governor's budget includes an increase of $11 million for the advertising budget for the private management company. Also, $38 million has been added for the operating and management expenses. These costs will all be borne by commonwealth with Lottery Funds outside of the PMA.

Current law mandates that the lottery invest at least 27 percent of the Lottery Fund in senior programs annually. Under state law, that minimum returns to its standard level of 30 percent on July 1, 2015 after the recession caused the legislature to grant a temporary relief to the fund in 2010. This change alone would amount to a $1.244 billion loss to seniors if the same sales revenues were to be achieved without the profit taking of a private manager.

Camelot will put up $200 million security to make up any shortfalls in their projections. However, the PMA stipulates that the cash withdrawal to cover any profit shortfall cannot be greater than 5 percent of that year's profits.

Pennsylvania's Lottery is one of the best operated lotteries in the nation – with increased sales every year. It has raised over $27.6 billion for vital senior citizens programs ranging from PACE prescription drug assistance to the Property Tax and Rent Rebate Program. Yet another one of Pennsylvania's assets that Governor Corbett wants to give away.

The Attorney General has not yet signed off on the deal and the Treasurer has yet to determine if it is legal. Many members of the General Assembly believe this change in policy would require legislative approval, as well.

PENSIONS

The Governor proposed unprecedented changes to the pension benefits for current members of the two pension systems in his budget presentation today. The general fund cost for 2013-14 fiscal year was expected to increase by $403 million for the school employees' retirement system (PSERS). There is also an increase in the cost of the state employee's retirement (SERS) pension obligation but since the Governor is requiring all Departments to survive on last year's appropriated amounts for this fiscal year the increased SERS pension costs would have, in effect, been absorbed by each department.

The school districts would have, all together, had to pay approximately $329 million more for their share of the school employee's pension obligation in the 2013-14 fiscal year.

The Governor feels that these contributions are more than can be afforded and has proposed a plan to reduce the increase by $175 million for the state's total obligation and $137 million for the school districts. His proposal utilizes these changes to obtain the expected savings:

- Reduce the Act 120 collars to reduce the employer's contributions by 50% for 2013-14.
- The collars would increase by .5% each year back to the maximum of 4.5%.
- There will be no change to benefits for retirees.
- New employees will be enrolled in a 401(a) plan. Enrollment will be automatic, and employees will be required to contribute at least 6.25% of their salary to their retirement.
- Current employees would have their future pension benefits reduced through a lower multiplier (decreased from 2.5 to 2.0).
- Compensation reforms (including anti-spiking provisions)
- Capping pensions at the Social Security wage base.
- Requiring lump-sum withdrawals to be provided on an actuarial equivalent basis.

There is a hidden cost to each pension fund of moving newly hired employees to a 401(a) type plan. The dollars they are contributing would, by definition, go into their own account and could not be used to pay current obligations of the fund which accelerates the cost of paying off the unfunded liability. If the collars are arbitrarily limited, as the Governor's plan does, the result is that the pension funds will become even less funded.

The plan to reduce the collars from limiting pension costs to grow by 2.25% instead of the amount that would have been required which is 4.5% is the only real immediate savings in his proposal and does indeed simply delay the repayment of the state's debt.

Reducing the pension benefits for the current employees has never been done in Pennsylvania before. Governor Thornburgh attempted to make current employees pay more for their pension benefits in 1984 but the Supreme Court ruled that such a unilateral change was an impairment of contract and the commonwealth was required to return the employee's contribution rate to its previous level and also to return the money collected from employees with interest.

These payments which the Governor feels are too high are significantly lower than they would have been without the payment deferment contained in Act 120 of 2010. Prior to passage of Act 120 the expected total contributions for 2012-13 would have been $4.9 billion for both pension systems. But Act 120 could only defer these payments not erase them. The total unfunded liability of the two pension funds is $41 billion. The money owed to the commonwealth and school district employees for work already done is $41 billion.

EXECUTIVE OFFICES

The proposed budget for fiscal year (FY) 2013-14 includes a total General Fund appropriation of slightly more than $181 million for the Governor's Executive Offices, representing an increase of approximately 15 percent, or roughly $24 million, from enacted FY 2012-13 spending levels. Listed below are the notable funding adjustments, or additions, proposed for the Governor's Executive Offices in FY 2013-14 that comprise the majority of its overall funding increase mentioned above:

- An increase of approximately $8.5 million for Commonwealth Technology Services (CTS), which provides information technology services to state agencies and administers the data center outsourcing contract. The majority of this increase is slated for a new initiative that will fund enterprise investments to improve the commonwealth's technology infrastructure. This increase is especially significant when noting an anticipated $10 million reduction in federal ARRA funding dedicated to "broadband technology opportunities".

- A new appropriation titled "Technology Innovation Investment Fund" within Executive Offices has been created. This appropriation will fund new technology investments for agencies under the umbrella of state government. $7.7 million in new funding has been proposed for this initiative.

- The Governor's budget proposes an additional $218,000 for the Juvenile Court Judges Commission (JCJC), increasing its total appropriation to nearly $2.7 million. The JCJC is responsible for the development and improvement of juvenile probation services throughout the commonwealth. This increase is needed to continue their current level of operations.

- An increase of $363,000 is proposed for the Pennsylvania Commission on Crime and Delinquency (PCCD) under the Governor's proposed budget, raising its total appropriation to just under $3.7 million. The PCCD enhances the quality and coordination of criminal and juvenile justice systems, facilitates the delivery of services to victims of crimes, and increases the safety of our communities. The majority of this increase is needed to ensure that victim services programs receive the full allocation of funding planned from the Governor's new Justice Reinvestment Initiative.

- Also as part of his Justice Reinvestment Initiative, the Governor has dedicated an additional $4 million for the line item dedicated to Violence Prevention Programs. This increase will be used to support evidenced based delinquency, violence prevention and intervention programs.

- As the final part of the new Justice Reinvestment Initiative, $5 million in additional funding has been set aside for the appropriation dedicated to Juvenile Probation Services. This increase will be used to identify and target evidence based interventions for high risk offenders, assess juveniles risk to reoffend and facilitate analysis and collection of offender specific case plan data. The increases for this, and the three aforementioned appropriations, is not only important to the efforts of the Justice Reinvestment Initiative, but they are also significant when noting the loss of federal monies for areas within Executive Offices dedicated to justice assistance, violence prevention, and crime intervention. For FY 2013-14, federal monies for these programs, when combined, are expected to be reduced by more than $25 million.

ROW OFFICES

Auditor General

Under the Governor's proposed budget, the Office of the Auditor General will see no changes over enacted fiscal year (FY) 2012-2013 funding levels. Total state funding for the Office is proposed at $42.3 million, the same level enacted in FY 2012-13, and approximately 5 percent less than was appropriated two fiscal years ago.

Attorney General

The Governor has recommended an appropriation in the amount of $78.121 million for the Office of Attorney General (OAG) in the FY 2013-14 proposed budget. This represents level funding when compared to FY 2012-13. General Government Operations (GGO) in the OAG is funded at $35.45 million. Compared to FY 2011-12 funding levels, the office has had funding reduced by nearly 5 percent. The GGO appropriations supports most of the non-drug elements of the OAG's Criminal Law Division; most of the Public Protection Division, which protects Pennsylvania's consumers, the entire Civil Law Division, which defends the commonwealth and its agencies in litigation; and the executive and administrative functions of the OAG. This includes salary, benefits and retirement contributions.

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

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

Treasury

Today's budget presentation contained no new money for the GGO of the Treasury. It would be funded at the current year's amount of $31.7 million. The Board of Finance and Revenue would receive a $550,000 increase to create an independent tax appeals commission. The final year of the Department's computer modernization is funded at the requested amount of $12 million.

Expected general obligation debt service costs are $29 million lower for the 2013-14 fiscal year. For the first time in several years, the Governor anticipates issuing tax anticipation notes and has proposed a $5 million executive authorization to pay for the interest on those notes.

DEPARTMENT OF AGING

Family Caregiver Support

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

Pre-Admission Assessment

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

PENNCARE

The PENNCARE program provides home and community based services to older Pennsylvanians to enrich their lives and enable them to delay or avoid moving to a nursing home. This budget proposal includes $275.2 million for the lottery funded PENNCARE appropriation.

An additional $27 million is expected to provide home and community based services to 5,400 individuals on the OPTIONS waiting list and an additional 193 individuals who will transfer from the Department of Public Welfare's Attendant Care Program at age 60. Funds are also used for Older Adult Protective Services to investigate suspected elder abuse reports.

Pharmaceutical Assistance

The Governor's budget maintains funding at the FY 2012-13 funding level for the PACE & PACENET programs.

Senior Centers

The FY 2013-14 provides $2 million in new funding to provide grants to senior centers for the modernization of facilities and programs.

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.

Despite this, the proposed budget calls for significant changes to the Department of Agriculture's funding lines. It eliminates the Agricultural Excellence, Agricultural Research, Agricultural Promotion, Education and Exports, Hardwoods Research and Promotion, Livestock Show, Open Dairy Show, Food Marketing and Research and the PA Preferred Program Trademark Licensing. The Animal Health Commission is slated to be funded from the Pennsylvania Race Horse Development Fund. General Government Operations are also cut but by $5.3 million to allow the Pennsylvania Veterinary Lab program to be funded by from the Pennsylvania Race Horse Development Fund.

Elsewhere in the Department's proposed budget, most line items are level funded and the Department could see a proposed cut of $11.6 million.

CORRECTIONS

Background

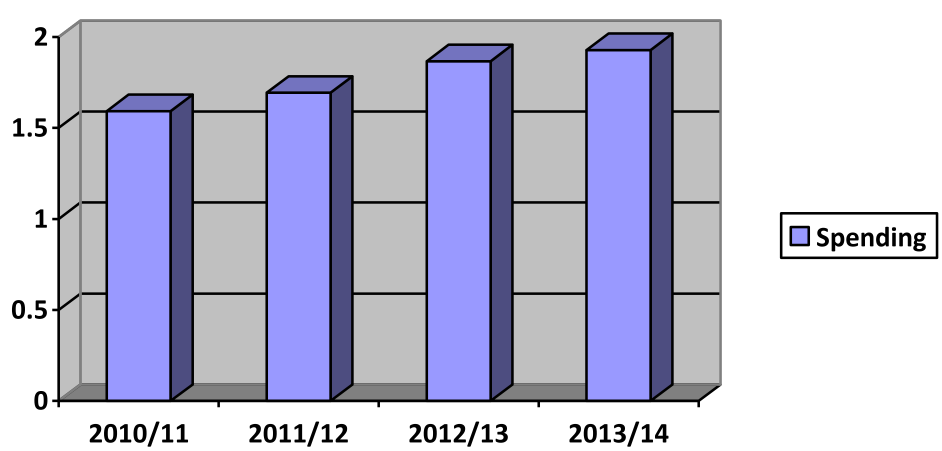
The size and cost of America's prison system has skyrocketed during the last few decades, largely as a result of laws and policies that put more offenders behind bars and keep them there longer. However, states around the country have recently started questioning whether warehousing law breakers for long periods of time is the best use of taxpayers' dollars. This past year, the Department of Corrections partnered with the Council of State Governments' Justice Center to develop the Justice Reinvestment Initiative (JRI) to assist in analyzing data from multiple agencies in an effort to develop sound policies and monitor the impact of these policies through effective performance measures; something that Senate Democrats have been advocating to enact for years. Justice Reinvestment is a data-driven approach to reducing corrections spending and reinvesting savings in strategies that can decrease crime and strengthen the safety of our communities.

FY 2013/2014 Budget

State Correctional Institutions and Community Correction Centers

In the Governor's proposed 2013-2014 budget, state spending for the Department of Corrections will be increased to $1.928 billion. When compared to FY 2012-13 funding levels, this represents an increase of 3.25%.

State Correctional Institution Appropriations
(Dollar amounts in Millions)



Currently, the commonwealth is operating at 2,107 inmates over capacity. For FY 2013-14, the Governor is requesting an increase of $49.1 million for the institutional system, which houses an offender population that stands at 51,184 inmates as of December 2012. Of this population, 48,774 are housed throughout the State's 26 institutions, while the remaining inmates are housed in Community Correction Centers and other jurisdictions. Within this request is a savings of nearly $18 million through the closure of SCI Greenburg and Cresson and the opening of SCI Benner Township. He is also requesting $8.3 million for the corrections and parole total offender repository initiative to provide resources for system development.

In 2012, approximately 1,000 inmates who had been temporarily housed in Virginia were able to be returned to Pennsylvania due to a steadying inmate population. There are no longer any PA inmates being housed outside the state.

The Department is also anticipating transferring $761,000 to the Justice Reinvestment Fund to distribute prior year savings from the Justice Reinvestment Initiative.

Medical

The Governor anticipates an $8.77 million increase in inmate medical care in FY 2013-14. The majority of this is attributable to increases in contracted medical care costs and costs to continue the current program.

BOARD OF PROBATION AND PAROLE

Background

According to the Bureau of Justice Statistics, at year end 2011, about 4.8 million adult men and women were supervised in the community either on probation or parole, or about 1 of every 49 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 violations or other offenses.

FY 2013/2014 Budget

In the proposed FY 2013-2014 budget, the Governor has recommended an increase in Probation and Parole's General Government Operations spending of $10.75 million, or 9.7% over current year. The $10.75 million increase includes $7.8 million to continue current programs with the remaining for new initiatives. The first initiative will provide staffing to monitor the anticipated increase in workload resulting from the Justice Reinvestment Initiative and to enhance reentry programs. One of the remaining initiatives provides $300 thousand for GPS monitoring while the other provides $492,000 to maintain caseload ratios for an increased parolee population.

At the end of FY 2013-2014, the Board anticipates approximately 39,400 supervised parolees and probationers, up 1,600 or 4% over current year projections.

The Sexual Offenders Assessment Board would receive an additional $265,000 to continue the current program.

The estimated State Supervision Fee Collections for FY 2013-2014 are $3.65 million, which is an increase of $150,000 over current year collections.

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

The Department of Community and Economic Development (DCED) fiscal year 2013-2014 General Fund appropriation totals $245.5 million. DCED will see a proposed $200,000 increase to its General Government Operations to provide resources to support the commonwealth's efforts to maintain Pennsylvania's military installations.

The Governor's proposed budget attempts to highlight the commonwealth's commitment to enhancing the state's business climate by "sparking" economic development and job creation. The proposed budget also emphasizes workforce development and training programs to provide Pennsylvania workers with the skills and know-how to meet changing industry and service delivery demands in the commonwealth. The Governor's budget priorities, however, fail to make the necessary and strategic investments to attract new business investment and provide for a skilled workforce and job creation plan such as PA Works.

In 2012, Pennsylvania ranked 34th in net new job creation among the 50 states; after previously ranking 8th in job growth in 2010 and as high as 7th in 2011. Moreover, the pace of annual job growth in Pennsylvania has slowed to 38,700 jobs last year, while nationally job growth exceeded 2.1 million, the highest level since 2006. In addition, unemployment in Pennsylvania rose to 7.9 percent in December 2012, up 0.1 percent from November 2012 which was higher than the national rate of 7.8 percent.

The Governor's proposed budget for DCED keeps key program initiatives flat which could, otherwise, be used to spur greater economic development. Such programs as Keystone Communities remained flat at $10.8 million, although additional funding and innovation could encourage Public-Private ventures, which in-turn could provide support for local initiatives to promote economic growth and stability in neighborhoods and communities. Another initiative, Discovered in PA-Developed in PA, also remained flat at $10 million; and the Ben Franklin Technology Partners, which has historically received over $50 million for investment in early stage technology companies to help companies grow and foster economic development received only a modest $14.5 million to spend among the four partners.

Although the proposed budget adds $10 million to PA First, an initiative designed to increase investment and job creation in the Commonwealth, greater attention should be placed on growing small businesses and building capacity. Small businesses, which are the economic engines of the state's economy, still find it inordinately difficult to obtain access to capital, financing, and a skilled workforce. Moreover, since more conventional financial institutions do not regularly meet the needs of many small businesses and start-up firms, particularly diverse businesses, the commonwealth must find more creative and strategic ways to fill this gap. In short, the commonwealth must prioritize efforts to make capital more easily available for small business owners. It is also hoped that the proposed merging and consolidating of eight different financing programs into the Liberty Financing Authority (LFA) would help by creating a one-stop shop for businesses seeking capital and more flexible financing tools.

The Early Intervention program will again receive $1.8 million which suggests that there are ostensibly more distressed municipalities that may go under ACT 47. Currently, twenty-one communities are under ACT 47 and to date, only six have come from out under ACT 47. This clearly underscores the point that a major and comprehensive overhaul of ACT 47 is long overdue. New reforms and bold ideas beyond ACT 47's outdated solutions will have to be adopted if all of Pennsylvania's communities are to experience economic growth and prosperity.

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES (DCNR)

The Governor's budget for fiscal year (FY) 2013-14 proposes a total state appropriation of $52.7 million for DCNR, which is approximately the same amount of funding available to the Department in the enacted FY 2012-13 budget. As a result, most of the Department's appropriations are proposed to be level funded over the prior fiscal year. However, there is one noticeable change regarding funding for line item appropriations within the Department which is listed as follows:

- Funding for the Department's Forest Pest Management line item has been consolidated into its State Forest Operations appropriation. The Forest Pest Management line item provides funding to help reduce the loss or damage caused by insects or disease on state forest lands. Funding for the Department's State Forest Operations and Forest Pest Management line items totaled $7.2 million in FY 2012-13. The same amount has been proposed for the Department's State Forest Operations in FY 2013-14 to reflect this consolidation.

Aside from discussing specific line item appropriations, the Department will also continue to receive its traditional allocation from the Oil and Gas Lease Fund. Under the Governor's proposal, approximately $48 million will be transferred from the fund to the Department in FY 2013-14, which is roughly $14 million more than was transferred in FY 2012-13. In addition to this transfer, $20 million from the Fund will be provided to the Marcellus Legacy Fund, which will provide for various conservation measures as part of ACT 13. Revenues from this fund are derived from rents and royalties from oil and gas leases on commonwealth land, which the Department, in turn, then uses to acquire and develop State Park and State Forest land for both conservation and recreation purposes.

In addition to the Oil and Gas Lease Fund, the Department will also continue to receive its traditional transfer or allocation from the Keystone Recreation, Park and Conservation, or Key 93, Fund. These funds are used by the Department for state park and forest lands rehabilitation, repairs and upgrades of facilities and for land acquisition. The Departments allocation from the fund has taken on a greater significance when noting the expiration of Growing Greener II monies in the not so distant past, which helped to fund similar projects through the Department. DCNR's transfer from the fund is proposed at $43.7 million for FY 2013-14, up $1.5 million from FY 2012-13.

Although the Governor's budget continues fund transfers to the Department and does little to reduce its levels of funding for FY 2013-14, it should still be noted that DCNR's total proposed state allocation is $28 million, or 35 percent, below where it stood prior to his coming into office. Additionally, the Governor's continued use of supplemental funding sources, namely the Oil and Gas Lease Fund, to back-fund typical day to day operations of the Department is still cause for concern. Under his proposal, more than 25 percent of the Department's total budget in FY 2013-14 is funded by the Oil and Gas Lease Fund. In comparison, only 9 percent of the Department's budget was funded by the Oil and Gas Lease Fund in FY 2010-11. The Governor's "back-funding" approach has begun to establish a precedent for the use of these funds that blur their original intent and purpose (a precedent that is now being challenged in court). These fund monies were intended to be reinvested back into conservation and environmental programs, not in the department's typical day-to-day operations. The questionable use of these funds by the Governor has not only set a precedent that skews their original intent, but it also has, and more importantly, helped to legitimize the reduction of state monies, within the Department, as alluded above.

THE DEPARTMENT OF EDUCATION

The proposed budget increases the basic education subsidy by $90 million, a mere 1.7 percent increase. As in the current year, $10 million is available 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.

Since taking office in 2011, this Administration has cut aid to public schools by nearly $900 million, with reductions in the basic education subsidy and the elimination of state support for targeted initiatives such as tutoring assistance, elementary science and dual enrollment. In addition, pension costs for school districts will increase 4.5% for FY 2013-14. The Administration contends that under their pension "reform" plan, districts can save $138 million in pension costs.

The budget proposal flat funds the Accountability Block Grant at $100 million. In the current year, the Governor had recommended zero funding for the program, however the Legislature was successful in having $100 million included in the final budget.

The Administration is estimating their liquor privatization plan will generate $1 billion which would then be distributed to schools as the "Passport for Learning Block Grant". The funds would be distributed over four years, based on a formula that considers the school's enrollment, student population and wealth. The state would require those dollars to be spent on four programs: School safety – training for educators and administrators, enhanced security measures and partnerships with local law enforcement; Ready by 3 – promoting enhanced achievement in reading and math through third grade; STEM initiatives -- science, technology, engineering and mathematics instruction in the sixth to twelfth grades; and Individualized learning – customized learning programs based on student proficiency and academic standards.

Grant awards would be announced in the spring of 2013-14 and funds would be available for use by school districts beginning in the 2014-15 school year. The Administration is estimating that $200 million would be available in year one.

The Governor touts this funding as providing flexibility to schools, allowing them to decide what their students need. And certainly districts are in need of funding for these 4 initiatives and would welcome the money for these targeted investments and funding will disappear after four years for programs that appear to have reoccurring cost needs.

The General Government Operations appropriation is flat funded. In addition, this budget recommends $775,000 in augmentations provided through a $25 increase to the $100 teacher certification fees to provide for timely review and resolution of educator misconduct complaints. The Department would set up a new division under the Chief Counsel to prosecute misconduct by professional educators.

The budget proposes to give districts the ability to apply to the Department for a waiver from certain sections of the school code by establishing an expanded and streamlined version of the Mandate Waiver program that expired in 2010. The district must demonstrate that the waiver will allow it to improve its instructional program or operate in a more effective, efficient or economical manner. The budget materials describe the Administration's support of a Competency-Based Learning model that awards credits based on the mastery of content and not merely seat time requirements. School districts can apply for waivers from requirements that stand in the way of this model of learning.

The Department is proposing an Online Course program to expand education beyond the physical walls and limitations of the classroom. The Department will accept and approve applications from providers that offer high-quality instruction through on-line delivery systems. Local school districts will be responsible for establishing student eligibility requirements and procedures.

Special Education funding provides support for programs in the commonwealth's public schools serving students with disabilities. These programs are administered by all 500 school districts, and charter schools where appropriate. The Department estimates that the number of pupils with disabilities enrolled in special education programs will be 262,240 in 2013-14. The budget request flat-funds the special education line, at $1.027 million. The proposal includes increasing the contingency fund, available to districts and Intermediate units for the costs of extraordinarily expensive special education costs, from 1 percent to 2 percent. This would result in a pro rata reduction in the current funding amounts, but the availability of higher awards and the availability of contingency funding to more schools.

Funding for the Chartered Schools for the Deaf and Blind would receive a slight increase to deal with their rising pension costs.

Early Childhood Education programs are funded in both PDE and DPW. The budget recommends funding in PDE for the Pre-K Counts program at $87.3 million, an increase of $4.5 million, which would provide additional resources to serve an additional 580 children in full- and part-day programs. Pre-K Counts provides funding for early childhood learning, focusing on at-risk students.

Head Start Supplemental Assistance, which expands pre-K services to eligible children, would be increased by $1.9 million, to serve additional 210 children in early learning programs.

The proposal includes an extension of the moratorium on PLAN CON building projects for next fiscal year. A study is due by the Department May 1, 2013.

The Governor recommends an increase in funding for Early Intervention which provides services and support for children with developmental delays. The funding increase of $5.0 million would expand services to 1,500 additional children from ages 3 to 5.

There are three line items for Nonpublic Schools. Specifically, Services to Nonpublic Schools and Textbooks and Materials are proposed to be flat funded, while Transportation for Nonpublic and Charter Schools would receive a slight increase under his plan.

The Teacher Professional Development appropriation is flat funded. The PA Assessment line is increased by $3.8 million to support existing state and federally mandated tests. In 2013-14 the teacher evaluation tool will be implemented. In the current school year it was piloted in 1,050 schools. The budget includes $2.7 million for the development of the new specialist and principal evaluation tool, currently piloted in 845 schools and which will be fully implemented in 2014-15.

The Public Library Subsidy is flat funded under the Governor's request. 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 $2.7 million will be available.

The proposed budget eliminates funding for the Mobile Science Education Program and $7.2 million in Job Training Programs.

HIGHER EDUCATION INSTITUTIONS

Governor Corbett's 2013-14 budget proposal for higher education includes flat funding for the state-owned universities, as well as the state-related universities -- Penn State, Pitt, Temple and Lincoln. This was one of the recommendations of the Governor's Commission on Post Secondary Education, which also includes tying future funding increases to an institution's success in certain sector specific performance measures that will be established by the Department of Education in consultation with the universities, and will center on making post-secondary study more accessible and affordable. Beginning in July 2014, the report recommends the state establish an additional fund to be distributed based on performance. Funding for each institution would depend on how well they contain costs, respond to workforce needs, close achievement gaps, attract research funding and publish useful information for potential students.

In addition, the Governor has asked the universities to keep down their tuition increases for next year. This request for no increase in funding follows two years of dramatic funding cut requests by him for higher education. In the Governor's first budget proposal, he recommended cutting funding 50 percent for the State System of Higher Education Universities and the four state-related universities, unprecedented for any governor in this country. The Legislature rejected that idea and negotiated cuts of 18 percent for PASSHE and 19 percent for the four state related universities.

In the current year, he proposed 30 percent cuts for Penn State, Pitt, and Temple, level funding for Lincoln University, and a 20 percent cut for the state universities. The Legislature succeeded in preventing any funding cuts, and secured a promise that the universities would keep their tuition increase within the rate of inflation. In the current school year, Temple did not raise tuition, Penn State raised its tuition 2.4 percent for its main campus, and Pitt, Lincoln and PASSHE raised their tuition 3.0 percent.

Community Colleges

The Governor's proposed budget includes flat funding for community colleges for operating and capital. Funding for Regional Community College Services would receive flat funding of $1.2 million. A portion of this is allocated for Allegany College of Maryland which serves students in Bedford and Somerset Counties.

Pennsylvania ranks 34th in net new job creation among the 50 states. Job growth has slowed and unemployment has been at or above the national average for several months. In Pennsylvania last year, the Governor's Manufacturing Advisory Council reported that the number of new workers entering the industry, coupled with the growth in manufacturing, has left a staggering gap of available skilled workers. Given the appropriate resources, community colleges can be the solution to Pennsylvania's skills gap, as postsecondary education is required and frequent retraining is necessary for employment.

Pennsylvania State System of Higher Education

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 proposal assumes $12.1 million for PASSHE's share of the Keystone Recreation, Park and Conservation Fund, used for deferred maintenance projects.

Although the Governor is requesting level funding, it should not be overlooked that state funding in 2002 was $471 million, and the Governor's proposal is $412 million for 2013-14. 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

Although the proposed budget flat funds the four state related universities, it should be noted that the state-related universities use the state appropriation to reduce tuition charged to in-state residents. At a time when parents and students are burdened with the cost of an increasingly expensive college education, even a small increase in tuition can be the difference for some families in being able to afford college or not.

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 2013-14, the Governor is recommending state funding of $344.88 million, and is assuming that the PHEAA Board of Directors will direct $75 million from its business earnings to supplement the State Grant Program for a total of $419.88 million.

It is anticipated that the number of eligible grant recipients for fall 2013 will be 182,000. Flat funding amount should allow the maximum grant amounts to remain at $4,348. Currently, the average State Grant award is $2,882.

Institutional Assistance Grants

The Institutional Assistance Grants line, which provides assistances to higher education institutions that do not receive other state funds, is recommended to be flat funded. Eighty-eight institutions receive this allocation based upon the total number of eligible grant recipients enrolled. It is expected that in 2013-14 per capita grant amount would be $512.

Proposed funding for the other appropriations in the PHEAA budget are all flat funded:

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

Targeted Industry Cluster Scholarship Program

The Targeted Industry Cluster Certification Scholarship Program provides 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. The Governor recommends flat funding of $5 million from PHEAA business earnings.

DEPARTMENT OF ENVIRONMENTAL PROTECTION

The proposed funding for the Department of Environmental Protection (DEP) is a break with the recent past. The Governor proposes increasing most of the appropriations within DEP. These increases will, for the most part, put the Department back where it was in late 1990's as far as resources are concerned.

The general government of DEP is held at $10.6 million where it has been for the last three years. The appropriation has had a 24 percent decrease over the last 5 years.

Environmental Program Management is slated for an increase of 6 percent or $1.6 million. Over the previous four years, Environmental Program Management has suffered a 14 percent reduction in funds.

Environmental Protection Operations, which is the third major administrative line item in DEP's budget, is slated for a 2.5 percent increase of $1.9 million which places its funding level back to where it was in the 2000-01 fiscal year.

The Governor does propose ending General Fund payments of $2.8 million to the county conservation districts. The conservation districts will receive $2.5 million from the Marcellus shale impact fee. While the districts themselves are only slightly impacted, it is another example of the Governor publicly insisting that all the fee money be used locally but finding a way to help balance his own budget with the funds.

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 $1.1 billion in fiscal year 2013-14 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 (PGCB), Pennsylvania State Police, Department of Revenue, and Attorney General.

The proposed PGCB budget is $36,098,000.

TABLE GAME TAXES (GENERAL FUND)

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

For FY 2013-14, table game revenues are expected to generate $95.4 million in revenue.

DEPARTMENT OF GENERAL SERVICES

The Department of General Services' (DGS) Fiscal 2013-2014 General Fund appropriation totals $118.7 million. This amounts to $1.2 million increase in General Government Operations.

Rental and municipal charges remained level at $22.9 million, while the appropriation for utility costs decreased by $2.9 million based on current estimates. The appropriation for the excess insurance coverage was also decreased from $1.6 million to $1.2 million. Capitol Fire Protection remained level at $2.5 million. No appropriation was listed for the printing of the Pennsylvania Manual.

DGS is also responsible for implementing programs and policies that are designed to increase state contracting opportunities for self-certified small and verified small diverse [minority, women and veteran-owned] businesses. These diverse businesses, however, continue to express concern over the lack of meaningful progress under the commonwealth's program, as well as opportunities for small businesses under theDdepartment's Small Business Procurement Initiative.

DGS' workforce will be reduced by 140 employees as a result of the Governor's ongoing privatization of services. The reduction, however, was not reflected in the Governor's proposed budget.

DEPARTMENT OF HEALTH

AIDS Programs

The Governor's proposed budget maintains funding of $7.2 million for FY 2013-14. Many of the AIDS services are housed and operate at the State Health Care centers. These 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.

Community Health Centers

The budget provides $4 million to establish the Community-Based Health Care Subsidy (CHCS) program as a new and additional way for the commonwealth to fund community-based health care clinics. These community-based clinics will create immediate access to or enhance preventive primary care services to underserved areas and uninsured individuals of the state.

Primary Health Practitioner Loan Repayment Program

An additional $1 million is included in the FY 2013-14 budget to increase the amount of the current loan repayment awards and to provide an additional 24 awards to physicians, dentists and other practitioners. This expansion is intended to increase recruitment and retention of more primary care physicians and practitioners into rural and underserved areas.

Cancer Programs

The Governor's budget maintains funding at $2.5 million in FY 2013-14 for Cancer Screening Services. These programs focus on encouraging lifestyle changes to prevent the development of cancer and to support research, routine testing, screening and early testing, and early intervention to improve the chance of survival for those who have cancer.

Other Health Programs

Funding for Diabetes Programs, Lupus, Regional Poison Control Centers, Trauma Program Coordination, Epilepsy Support Services, Bio-Technology Research Tourette Syndrome and Amyotrophic Lateral Sclerosis Support Services has been eliminated for FY 2013-14.

DEPARTMENT OF INSURANCE

The FY 2013-14 budget includes a proposal to create a dedicated funding source for the administration of the Insurance Department in order to provide increased flexibility in the regulation, management, development and oversight of the commonwealth's insurance industry. This fund will be used by the Department in lieu of a General Government Operations appropriation from the General Fund. This initiative will create the Insurance Regulation and Oversight Fund for the administration of the department.

Children's Health Insurance Program (CHIP)

In the FY 2013-14 budget, $3.8 million is added to implement a centralized eligibility determination process that will reduce the administrative costs to insurers, decrease enrollment errors and meet the federally mandated Affordable Care Act information systems requirements.

The proposed budget includes an $8.5 million increase in funding to CHIP, to provide health insurance coverage to an additional 9,330 children anticipated to be enrolled. 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.

eHealth Partnership Authority

The Pennsylvania eHealth Partnership Authority authorized by Act 121 of 2012 was established to build and maintain a health information exchange (HIE) infrastructure and to coordinate health information exchange projects statewide.

The Authority will establish and collect fees to cover implementation and operational costs of the system, or for other services provided by the authority. Participation in the electronic record exchange by a health care provider, payer, consumer or any other entity is voluntary.

An additional $1.4 million is included in the FY 2013-14 budget to continue the current program.

Health Insurance Exchange

As part of the Affordable Care Act, states were required to set up a state-run Insurance Exchange or Marketplace in order to make it easier for individuals and small business to purchase health insurance. On December 12, 2012, Governor Corbett opted not to establish an exchange specifically for the residents of Pennsylvania. Instead Pennsylvania residents will need to go to a federal exchange to purchase healthcare if they do not have employer sponsored insurance.

JUDICIARY

The Governor has recommended an appropriation for Judiciary in the amount of $308.188 million in the budget for FY 2013-14. This represents an increase of $9.328 million from the recommended appropriation of $298.860 million for FY 2012-13.

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 $33.405 million
- Senior Judge Reimbursement $1.335 million

Judicial Department	FY 2013-14 Appropriation
Supreme Court*	$104,710,000
Superior Court	$ 26,415,000
Commonwealth Court	$ 16,054,000
Courts of Common Pleas	$102,572,000
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 proposed appropriations for the Judicial Department are enhanced by a fee increase included in Act 49--2009. The legislation imposed a temporary 25-month surcharge, commencing December 8, 2009, on the existing Act 122 (2002) fee. The existing Act 122 (2002) fee excludes summary traffic offenses. The surcharge was extended 36 months to December 31, 2014 by Act 30 (2011). The surcharge consists of $10.25 to fund Judiciary operations and $1.00 for Access to Justice. A permanent fee of $2.25 was established to be directed to the Criminal Justice Enhancement Account to support salaries for the full-time county district attorneys.

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. (permanent fee increase)
- $1 to the Access to Justice Account for legal services.

The following amounts are expected from the following fees:

Account	Fee	FY 2013-14 Estimated Revenue
JCPS	$10.25	$25.398M
CJEA—DA’s	$2.25	$ 5.575M
ATJ—Legal Services	$1	$ 2.478M
Total	$13.50	$33.451M

LABOR & INDUSTRY

There are relatively few changes contained within the Governor's fiscal year (FY) 2013-14 budget proposal for the Department of Labor and Industry. Total state funding for the Department is set at $71.7 million for FY 2013-14, down $805,000 from its enacted FY 2012-13 level, meaning most of its line items would see little-to-no funding changes over the prior fiscal year. The few line items with noticeable changes over the prior fiscal year are listed as follows:

- A reduction of $280,000, or nearly 3 percent, for the Department's Occupational and Industrial Safety line item, reducing this appropriation from $10.2 million in FY 2012-13 to $9.9 million in FY 2013-14. The Occupational and Industrial Safety appropriation provides funding for the administration and oversight of a variety of laws related to the safety of the public and employees. The majority of this proposed reduction will be redirected to support other unspecified Department spending.

- The elimination of funding for the New Choices/New Options line item for FY 2013-14. This program provides career and personal development strategies for displaced homemakers, low-income single parents and the unemployed in an effort to help them find employment and achieve economic self-sufficiency. Funding for this appropriation was set at $500,000 in FY 2012-13, despite the Governor's previous attempts to eliminate it.

Although the Governor's proposal does little to affect areas of funding within the Department over FY 2012-13, it should be pointed out that its proposed budget is still significantly less than it was three years ago. Since coming into office, the Governor, with the help of Senate and House Republicans, has reduced state funding for the Department by 15 percent, from roughly $84 million in FY 2010-11 to the proposed level of $71.7 million for FY 2013-14. In doing so, they have cut and eliminated critical services, namely workforce development programs, that assist the state's businesses, workforce and unemployed along the way. Even worse is the fact that they have chosen to do so over a period when Washington has been experiencing its own problems, and continues to drastically cut federal dollars for the Department as well (federal funding for the Department has dropped from $914 million in FY 2010-11, more than $200 million of which was stimulus funding that is now gone, to an anticipated level of $432 million for FY 2013-14).

Instead of investing in Pennsylvania's workforce, the Governor's proposal for FY 2013-14, in large part, flat funds cuts that were made over the last two budgets within the Department; the Department which is mainly responsible for job creation and growth in the state. As a result of these, and other, cuts, Pennsylvania continues to struggle with high levels of unemployment and is slipping further behind the pace of the national recovery. As previously mentioned in this report, the commonwealth's unemployment rate, 7.9%, was higher than the national rate, 7.8 percent, for the month of December (the fifth consecutive month its rate has either been tied or above the national rate) and it still ranks well below a majority of states in the nation for year-over-year job creation, in 34th place. What's worse, the Governor has yet to offer a clear, comprehensive and long term jobs plan of his own to combat the commonwealth's workforce struggles, nor has he fully engaged Senate Democrats in conversation regarding their two year old jobs package called "PA Works".

STATE POLICE

The General Government Operations line item provides for many different programs such as 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 2012-13 FY budget allocated $176.6 million from the General Fund; and it receives $529.8 million from the Motor License Fund. However, in fiscal year 2013-14 the Governor is proposing an increase of $187.8 million from the General Fund and $563.4 million from the Motor License Fund.

The Governor is recommending that $14.7 million be provided to fund three new State Police cadet classes that will train a total of 290 new troopers. The cadet class is needed in order to maintain a complement level close to the current fiscal year. In addition, the budget includes $6 million to support 90 new civilian police communication operators in order to free up a similar number of troopers for patrol and law enforcement activities.

Of note, in the Governor's 2013-14 FY proposed budget is the elimination of the Forensic Laboratory Support line item, which was funded at $1.5 million in the current year budget.

The Governor is requesting a $2.4 million increase in the Gaming Enforcement line item over the current year budget. This represents a nearly 12 percent increase. The State Police responsibilities include investigating and prosecuting criminal infractions, conducting various background checks, and providing overall law enforcement services at Pennsylvania gaming facilities. He is also requesting a $235,000 increase in Liquor Control Enforcement, or an increase of 1percent.

PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY

The Emergency Management Agency (PEMA) is set to receive a proposed allocation of $17.9 million from the General Fund for the 2013-2014 FY. The Red Cross Extended Care Program line item is eliminated. This was slated to be eliminated in last year's budget proposal, but was restored in the final budget.

PEMA receives the majority of its funding through federal money, the bulk of which is an anticipated $180 million for Domestic Preparedness-First Responders and $21 million for Civil Preparedness. Both of these items are funded at the same level as FY 2012-13.

PEMA will receive $25 million from the State Gaming Fund and $5 million from the Property Tax Relief Fund, both via Executive Authorization. The Volunteer Companies Loan Fund is $17.5 million, which is the same as last fiscal year. PEMA is set to receive $116 million from the Wireless E-911 Emergency Services Fund, a decrease of $2.3 million.

The Office of the State Fire Commissioner will see a slight increase to a little over $2 million.

The PEMA budget also adds supplemental disaster relief funding for the current fiscal year. There is an additional $14 million for Summer 2011 Storm Disaster Relief and $10 million for Hurricane Sandy Relief.

PEMA's General Fund budget total, including federal funds, is $314 million. This represents a total cut of about $2 million.

PUBLIC UTILITY COMMISSION

The Governor has recommended an appropriation from restricted revenues for the Public Utility Commission in the amount of $2.7 million in the budget for Fiscal Year 2013-2014.

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

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

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

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

General Government Operations	**2011-12 Actual**	**2012-13 Available**	**2013-14 Budget**
	60,059	**65,255**	**67,797**

(Amounts in thousands)

The passage of Act 13, the Unconventional Gas Well Impact Fee, in 2012 added to the Commission's duties. The Act allows counties to pass ordinances to impose an impact fee on unconventional gas well producers and allows municipalities to adopt resolutions compelling the imposition of fees related to these wells. The Act requires the Commission to administer the collection and disbursement of the impact fee. For the initial year of administration, the Commission requested $250,000 to cover administration costs. This amount was appropriated from the General Fund for fiscal year 2012-13. In subsequent years this amount will be covered by the collection of the fees the Commission is authorized to administer.

Two funds were created with the passage of Act 13, the Marcellus Legacy Fund and the Unconventional Gas Well Fund. Sixty percent of the revenue of the Unconventional Gas Well Fund is distributed among the participating municipalities. The remaining forty percent of the fees are deposited in the Marcellus Legacy Fund. The revenues of the Marcellus Legacy Fund are used to benefit all counties, not exclusively shale gas counties, for the repair of locally owned at risk bridges, funding of water and sewer projects, hazardous sites cleanup and other similar projects.

	2011-12 Actual	**2012-13 Available**	**2013-14 Budget**
General Fund Total	60,059	65,255	67,797
Marcellus Legacy Fund	0	59,800	62,099
Unconventional Gas Well Fund	0	194,710	201,675
Total All funds	**60,059**	**319,765**	**331,571**

(Amounts in thousands)

DEPARTMENT OF REVENUE

The Department's general government appropriation would receive a small increase of $400,000 under the Governor's proposed budget to institute a new independent tax appeals commission. This new commission would be a joint venture with the Treasury Department. The Governor is anticipating continuing the enhanced revenue collection unit at a cost of $10 million. However, he expects that cost will be offset by savings in other areas made possible by the work of the unit.

The Governor continues to show support for the technology appropriation which would equal $14.5 million, which is $6 million less than the level in the current budget. This is the fifth 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 percent of that comes from the General Fund.

This budget proposes level funding for the Department of State for FY 2013-14 for a total of $9.1 million from the General Fund. General Government Operations will see a slight increase, but that increase comes from cuts within the department. Voter Registration, Lobbying Disclosure Voting of Citizens in Military Service and County Election Expenses all see cuts and the funding for the Electoral College will be eliminated in the coming fiscal year.

Additionally, the Statewide Uniform Registry of Electors is level funded.

STATE STORES FUND

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

In fiscal year (FY) 2013-14, State Store Fund expenditures by the LCB will include the transfer of over $465 million in liquor tax and sales tax revenue to the General Fund. Additionally, the LCB will transfer $80 million in profits to the General Fund.

LCB Privatization Proposal

- In the first 3.5 years of the plan, 1200 retail licenses would be sold in a competitive bid process
    - 800 large stores
    - 400 small stores
- Applications for a wholesale license after retail licenses are sold
- Applicants will pay a fee for exclusive privilege to sell brand in PA

New License Classifications

- Big Box Retail Stores – sell beer by the case, six bottles of wine to go.
- Grocery Stores – sell two six-packs of beer, six bottles of wine to go.
- Pharmacies – sell two six-packs of beer, six bottles of wine to go.
- Convenience Stores – sell one six pack of beer only.
- Enhanced distributor licensees – “break the bulk” and sell six-packs and bottles of wine.
- Also, existing restaurants/hotels/taverns can sell up to six bottles to go with their license, and may obtain a “thirty pack permit” to sell 30-packs.

Use of Proceeds – “Passport for Learning Block Grant” (PLBG)

- Will provide every PA student with an opportunity to achieve academic excellence through enhanced learning opportunities, career-focused training and safe learning environments, through an unprecedented $1 billion in enrichment funding in public schools through privatization proceeds.
- This $1 billion grant will be distributed over four years, and it will be based on a formula that considers the school’s enrollment, student population and wealth.
- $200 million in funds are to be accumulated for the program in year one.

The Reality

- Such expansion would raise serious safety and security concerns, particularly in urban areas throughout PA.
- While the Governor claims the new plan would raise substantial new revenue, the funds he would raise would be “one time” revenues from the sale of retail and wholesale licenses, while his estimates of continuing fees for these licenses are wildly inflated and unrealistic.
- The likely outcome of his proposed plan would significantly reduce current annual state tax and profit receipts from the sale of wine, beer, and spirits, now generating $500 million annually.
- These lost revenues would likely total in excess of $150 million annually ($100 million profits, $50 million tax collections, administration, and enforcement costs) while administration and enforcement costs would increase dramatically under this new private system.
- The Governor’s proposal to fund a new block grant for local school districts is a cynical attempt to pretend that limited term payments ($200 million for late next year) would make up for $900 million in annual cuts for basic education in his two prior budgets.

DEPARTMENT OF PUBLIC WELFARE

As part of the enacted budget of fiscal year (FY) 2012-2013, Act 80 of 2012, the Public Welfare Code Bill, was amended to eliminate the General Cash Assistance Program. The General Cash Assistance program had provided a $205 per month payment to 69,000 very low income Pennsylvanians, about 30 percent of them permanently disabled and waiting for Social Security benefits.

In addition, Act 80 included a provision to implement a pilot block grant program for County Human Services. This pilot program included twenty counties: Butler, Allegheny, Venango, Crawford, Erie, Beaver, Greene, Fulton, Franklin, Centre, Tioga, Luzerne, Wayne, Bucks, Lehigh, Berks, Chester, Delaware, Lancaster and Dauphin.

The Department continues to move forward with the expansion of HealthChoices statewide with the New West Zone effective October 1, 2012 and the New East Zone eligible on March 1, 2013. Individuals that lived in counties where AccessPlus was available to them prior to July 1, 2012, have been transferred to a HealthChoices Managed Care provider. This expansion results in a $162 million savings in FY 2013-14.

In July, the Supreme Court upheld the Affordable Care Act (ACA) as constitutional, but made the expansion of Medical Assistance optional for States. This will be the single most important decision the Governor and Secretary Alexander will make in the upcoming fiscal year. Choosing to fully participate in the expansion of the Medicaid program to 133 percent of the Federal Poverty Level; under the ACA an income disregard of 5 percentage points will be applied to this limit increasing the effective income limit to 138 percent eligibility and will extend health insurance benefits under Medicaid to 500,000 or more Pennsylvania families while simultaneously infusing an estimated $4 billion into Pennsylvania’s economy. While this may seem like a “no brainer” to some, Governor Corbett has yet to announce whether or not he will opt in to the expansion.

In addition, the Supreme Court decision places hospitals, particularly those serving large numbers of uninsured, at significant risk in states where Medicaid coverage is not extended. If the Administration decides not to expand MA eligibility, the outcomes for PA hospitals would be devastating with the number of uninsured Pennsylvanian's seeing little to no reduction while the hospitals see massive reductions or elimination of federal Disproportionate Share Hospital payments that are supposed to reimburse the hospitals to treat the uninsured.

Also, if Governor Corbett chooses not to move forward with the option to expand Medicaid, a gap in coverage will ensue for some of the poorest adults. The result of rejecting the Medicaid expansion will be that childless adults with incomes between 0 and 100 percent Federal Poverty Level will have no affordable coverage, while those with higher incomes would have access to federal tax credits. Tax credits are a provision of the Act for individuals with incomes 100 to 400 percent of Federal Poverty Level because the Act assumed those below those levels would qualify for Medicaid coverage.

Governor Corbett has discussed some projections of cost related to those individuals who are currently eligible, but not on the Medicaid rolls, often referred to as the "woodwork effect". The projection is driven by the tax penalties that are slated to go into effect that create an incentive for uninsured Americans to acquire insurance as of 2014, whether or not the state chooses to extend Medicaid benefits. However, since very-low income families are not subject to the tax penalty, it is hard to estimate how accurate those numbers are.

The commonwealth's total General Fund expenditures are projected to *increase* by $678.8 million or 2.4 percent and DPW's General Fund spending will *increase* by $315.6 million or 3.0 percent.

Medical Assistance

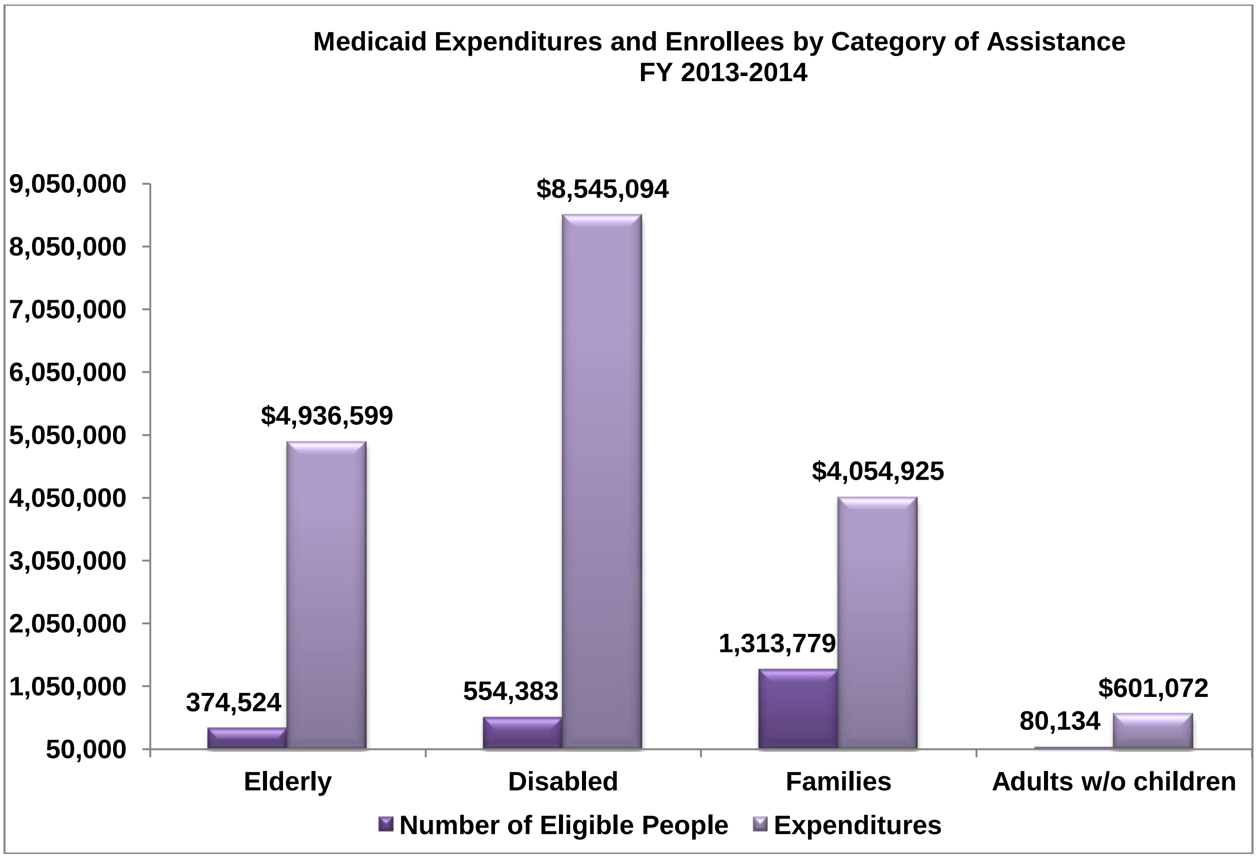
During FY 2013-14, Medical Assistance will provide health care coverage and long term care services to more than 2.1 million Pennsylvanians, a 9.4 percent decrease from the current year.

"Big 5" Medical Assistance Appropriations

	FY 12/13	FY 13/14	Difference
Outpatient	$ 539,644	$ 369,311	($170,333)
Inpatient	$ 220,927	$ 121,719	($ 99,208)
Capitation	$3,622,809	$3,830,192	$207,383
LTC (all)	$ 1,051,952	$ 1,129,491	$ 77,539
Medicare Part D	$ 512,992	$ 550,267	$ 37,275
Total	$5,948,314	$6,000,980	$ 52,666

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

	% of Caseload	% of Dollars
Elderly	16%	27%
Disabled	24%	47%
Children & Families	57%	23%
Adults without children	3%	3%



** Although the disabled and elderly are only 40% of the total Medical Assistance population, they account for 74 percent of the Medical Assistance expenditures.

In FY 2013-14, the Department will again try to implement a cost sharing requirement for families with children enrolled in the Medicaid Special Needs Program, often referred to as "loophole" kids. Families will share in the cost of premiums based on their income levels. The initiative will result in an estimated savings of $8.3 million.

Funding for Health Care Clinics is transferred to the Department of Health in FY 2013-14.

Human Services Funding

County Child Welfare Needs Based Budget funding will increase by $23.3 million in FY 2013-14. The funding for the Nurse Family Partnership, Legal Services and Breast Cancer Screening programs will be maintained at the FY 2012-13 funding level.

Child Care Services and Assistance Funding will see an overall increase of $3.0 million to expand services in FY 2013-14. Annualized savings $7.119 million from the consolidation of child care information services agencies are reinvested to provide subsidized child care to 1,400 additional children of low-income families.

In addition, $3 million is provided to further improve the quality of child care services through enhanced incentives for Keystone Star providers.

Domestic Violence and Rape Crisis funding will see an increase of $1.960 million to provide additional services in FY 2013-14.

In FY 2012-13, the New Castle Youth Development Center was closed. That closure resulted in a $10 million savings. These savings will be reinvested into juvenile delinquency prevention initiatives in the Department of Public Welfare, the Juvenile Court Judges Commission and the Pennsylvania Commission on Crime and Delinquency.

Human Services Development Fund Block Grant

In FY 2012-13, a 20 county pilot program was implemented to provide local governments with increased flexibility to address local needs. As part of this pilot program, funding for the following six programs is combined at the local level into a flexible Human Services Block Grant: Community Mental Health Services, Behavioral Health Services, County Child Welfare Special Grants, Homeless Assistance and Act 152 Drug & Alcohol Services.

In FY 2013-14, the 20 county pilot program will be expanded statewide, allowing all counties to participate on a voluntary basis. Funding will continue to be provided from the individual appropriations.

Mental Health and Intellectual Disabilities

To address the increasing need for the Intellectual Disabilities Community Waiver program, an additional $19.867 million was added to assist 380 individuals on the waiting list, 700 young adults graduating from special education system and 100 individuals currently residing in state centers.

In FY 2013-14, an additional $1.497 million was added to provide home and community based services for 118 additional individuals with autism spectrum disorders.

Long Term Living

In FY 2013-14, Services to Persons with Disabilities funding will increase by $15.758 million to provide home and community based services to an additional 1,280 additional Pennsylvanians.

In addition, 400 additional people will be able to access home and community based services through the Attendant Care program due to a funding increase of $4.125 million in FY 2013-14.