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## **GENERAL FUND**

### **2012-2013 Fiscal Year**

The fiscal year ended with a small \$57 million revenue surplus which is .2% over the estimate that was certified last July. The Governor had anticipated a larger surplus of \$232 million in his February budget presentation. Even with a reduced revenue amount the General Fund surplus for the 2012-13 fiscal year will be around \$470 million and will likely rise above \$500 million. That amount will carry forward to be available to finance the new budget for 2013-14.

### **2013-2014 Fiscal Year**

#### **Overview:**

House bill 1437, which is the general appropriations bill for the 2013-14 fiscal year, appropriates \$28.376 billion. It is \$707 million or 2.5% more in spending than was spent in 2012-13. It is also \$63.8 million less than the Governor proposed in his initial budget. Overpayments of \$136 million to the school employee's pension system over the last two years accounts for much of the decrease. So did moving \$90 million in expenditures off the General Fund ledger by paying for necessary costs from other funds.

The final spending amounts will be detailed throughout this report. Many of the general government appropriations have been raised from the Governor's February budget proposal by a small amount that reflect actual pension costs instead of the lower ones that the Governor built into his proposal assuming a questionable overhaul of the pension law.

#### **Revenues:**

The Governor's revenue estimate, which was just certified, is \$28.971 billion. That would be growth of 1.13% or \$323 million over the previous year, which is a cautious revenue estimate for a recovering economy.

## **TAX CHANGES in HB 465**

The following changes were made to the tax laws in House Bill 465. There are many small tax changes included in this list. The three biggest changes are the inclusion of add-back provisions to limit the abuses of the Delaware loophole, a more gradual phase-out for two years of the capital stock and franchise tax at .67 mills for the first year and an increase in the net operating loss carryforward (NOL) from \$3 million or 20% of tax liability to \$4 million or 25% of tax liability per corporation.

The tax bill raises \$48.7 million more for fiscal year 2013-14. The freezing of the capital stock tax accounts for nearly all of the increase. The add back provisions will not begin until 2015 and their full effect is likely not to be collected until 2015-16. At that time, the add back provisions are expected to add \$50 million to corporate net income tax (CNI) collections. The Governor's proposal to reduce the CNI rate over the next ten years is not included in the bill. Most importantly, it must be remembered that the continued reduction in the Capital Stock and Franchise Tax will cost an additional \$300 million in the new fiscal year.

These are the tax changes contained in House Bill 465:

1. Changes the market sourcing structure of the apportionment factor of the corporate net income tax so that sales of services to Pennsylvanians will be taxable in Pennsylvania. This is expected to raise \$7 million in 2013-14 and \$22.4 million in 2014-15. A carve out is included for satellite telecommunications service providers. The telecoms are slated to get a \$5 million tax credit to ease their expected tax increase.
2. Adopts federal rules of not taxing like kind exchanges within the PIT effective 1/1/2015. No cost for 2013-14. \$32 million cost for 2016-17.
3. Adopts federal deduction of \$5,000 for start up businesses who are paying the PIT on their business earnings. Reduces revenue by \$4.3 million in 2014-15.
4. Requires partnerships to keep accurate lists of the members to better facilitate tax collection.
5. Closes the 89-11 loophole to the realty transfer tax for transfers of real estate companies. This provision raises \$4.3 million in 2013-14.
6. Repeals of the corporate loans tax. \$700,000 reduction in 2013-14 revenues.
7. Broadens the Bank Shares Tax base to include more deposits held out of state by Pennsylvania citizens. Revenue neutral for 2013-14 and 2014-15. Further discussion about whether to lower the rate to give banks some tax relief starting 2015-16.
8. Increases the NOL cap to 25% of tax liability or \$4 million in 2013-14 and 30% or \$5 million in 2014-15. Reduces revenue by \$11.4 million in 2013-14 and \$36 million in 2014-15 fiscal year.
9. Institutes add-back provisions for deductions taken solely to avoid taxation. The add-backs would affect CNI payments and are patterned after Virginia's add-backs. May add \$50 million in additional revenue but not until it is fully phased-in in 2016.

10. A slow-down in the phase out of the capital stock and franchise tax to .67mills from .89 mills for tax year 2014. The rate would decrease to .45 mills in 2015 and then down to zero in 2016. This would increase tax revenues by \$56 million in 2013-14 and \$209 million in 2014-15.
11. Changes the Education Opportunity Scholarship Tax Credit program to limit the number of years a student can receive the scholarship if the student's home school is removed from low-achievement list.
12. Exempts a family member from paying inheritance tax for the inheriting of a small business as long as the person inheriting the business maintains ownership for 7 years and the business has \$5 million or less in assets.
13. Reforms the Board of Finance and Revenue to make it a 3 member board with the Treasurer and 2 Governor appointees. The Auditor General and the Attorney General would be removed from the board. The Auditor General and Attorney General are supportive of the change.
14. Creates City Revitalization and Improvement Zones (CRIZ) for local government economic development. DCED will select 2 CRIZ's amongst the eligible 3<sup>rd</sup> class cities. Bond financing of projects will be paid back from the additional tax revenue generated by the projects. Since only the additional taxes will be diverted from the general fund each CRIZ should cause no loss of revenue to the state.
15. Creates a PIT deduction for intangible drilling costs, may be related to inventory costing.
16. Adds two new check-offs to the PIT form. A check-off for Red Cross and one for Children's Trust Fund. Also Three of the existing check-offs that would have expired at the end of this are continued until 2018.
17. Two existing tax credits are repealed the sales tax credit for call centers and the Coal Waste and Ultra Clean Fuels Tax Credit, which was never used.
18. Requires the Department of Revenue and the Independent Fiscal Office to jointly author a report on how to implement any federal authorization of internet sales taxation.
19. Modifies the film tax credit to change what constitutes the start of principle photography. It also requires that income tax for out of state performers be withheld in order for the film production to be eligible for the film tax credit.
20. Sales tax exemptions for the repair costs of fixed wing aircraft. Has a \$4 million cost since it is only on the repair of fixed wing aircraft.

21. Creates an exemption from the realty transfer tax for transfers of property to volunteer fire and ambulance companies when the property is transferred for no or minimal cost.
22. Creates a small family business exemption for the inheritance tax. Family owned businesses passed which have \$5 million or less in assets could be passed on to surviving family members without incurring the inheritance tax.
23. Creates the Innovate in PA Program which utilizes \$100 million in tax credits to provide seed money for the Ben Franklin Partnerships, venture capital and Life Science Green Houses. The credits would be sold at a discount since the credits could not be redeemed for at least 3 years from the purchase date. The increased revenues from the new employees and the new businesses should pay for the tax credits when they are eventually redeemed. The \$100 million in new credits authorized will provide an estimated \$85 million for economic investments.

The chart on the next page shows the fiscal year revenue implications of House Bill 465.

House Bill 465 Tax Code

(Dollars in Thousands)

Tax Change	Tax	Cost 2013-14	Cost 2014-15
Market Source, Sale of Services to Pennsylvanians taxable in PA	CNI	\$7,000	\$22,400
Fed Rules- No tax for like kind exchanges w/in PIT	PIT	\$0	\$0
Federal Deduction (\$5,000) for start up businesses	PIT	\$0	(\$4,300)
Requiring Partnership Lists of members	PIT	\$2,600	\$5,300
Closes loophole of Real Estate Companies	RTT	\$4,300	\$11,500
Repeal of corporate loans tax	Corporate Loans Tax	(\$700)	(\$700)
Increase of NOL Cap \$4 million in 2014 then \$5 million in 2015 TY	CNI	(\$11,400)	(\$43,500)
Add-back Provisions for Deductions to avoid taxation	CNI	\$ -	\$ -
Re-write of Banks Shares Tax -Remove 6 year Av, Tax out of state	<i>Bank Shares</i>	(\$600)	(\$600)
Lowers Capital Stock and Franchise Tax Rate for 2 Years	<i>CSFT</i>	\$56,460	\$209,000
Re-institute Bone Marrow Tax Credit	Various Taxes		
Reform Board of Finance and Rev. to 3 Members	Tax Appeals	\$0	\$0
Creation of City Revitalization & Improvement Zones	Most Taxes	\$0	(\$16,700)
PIT Deduction for Intangible Drilling Costs	PIT	(\$1,100)	(\$3,300)
Add Red Cross + Children's Trust Fund to PIT Form Check-offs	PIT	\$0	\$0
Limits scholarships if the school left improves.	Educ. Opportunity Credit	\$0	\$0
Changes the start date of Photography	Film Tax	\$0	\$0
Exempt Repair Costs of Fixed Wing Aircraft	Sales	(\$4,000)	(\$7,000)
New Pari-mutual wagering tax. For non-licensed corporations	Pari-mutual Wagering	\$ -	?
Require Department of Revenue and IFO to prepare for internet tax	Sales	\$0	\$0
Inheritance Tax Exemption for small businesses	Inheritance	(\$3,800)	(\$6,700)
Adds existing KIZ and Keystone Spec Develop Zones w/o changes		\$0	\$0
Extension of Philadelphia Sales Tax	Philadelphia Sales Tax	\$0	\$0
Implements Innovate in PA	Various Taxes	\$0	\$0
	<b>Total Additional Revenue</b>	<b>\$48,760</b>	<b>\$165,400</b>

## DEPARTMENT OF PUBLIC WELFARE

In July, the Supreme Court upheld the Affordable Care Act (ACA) as constitutional, but made the expansion of Medical Assistance optional for states. Choosing to fully participate in the expansion of the Medicaid program to 133% 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% 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 and the House Republicans have refused to move towards the expansion.

The Senate passed the Welfare Code bill that included language that would have served as a tool for the Governor to negotiate the flexibility necessary to allow for the expansion of the Medicaid program in Pennsylvania by a vote of 40 to 10.

The House of Representatives made the decision to amend the bill, as passed by the Senate, in the Rules Committee, and remove this language. It is not clear how the Senate will respond to the House action.

A decision not to move forward with the expansion of Medicaid would create a gap in coverage for some of the poorest adults in Pennsylvania. Childless adults with incomes between 0 and 100 percent Federal Poverty Level would 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.

In addition, this decision places hospitals, particularly those serving large numbers of uninsured, at significant risk in states where Medicaid coverage is not extended. The outcomes for PA hospitals will be devastating with the number of uninsured Pennsylvanian's seeing little to no reduction while the hospitals see the reduction or elimination of federal Disproportionate Share Hospital payments.

### **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% decrease from the current year.



**“Big 5” Medical Assistance Appropriations**

	FY 12/13	FY 13/14	Difference
Outpatient	\$ 450,835	\$ 310,570	(\$ 140,265)
Inpatient	\$ 268,112	\$ 124,095	(\$ 144,017)
Capitation	\$3,631,373	\$3,935,020	\$ 303,647
LTC (all)	\$ 1,030,338	\$ 1,068,144	\$ 37,806
Medicare Part D	\$ 511,574	\$ 534,746	\$ 23,172
<b>Total</b>	<b>\$5,892,232</b>	<b>\$5,972,575</b>	<b>\$ 80,343</b>

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

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

In FY 2013-14, the Department will 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. Language has been included in the Welfare Code to codify this initiative. The sliding scale premium will be begin at \$100,000 annual income instead of the current 200% of FPL. The initiative will result in an estimated savings of \$8.3 million.

There is an additional \$4.213 million provided for funding for State-Related Academic Medical Centers and an additional \$1.134 million for Physician Practice Plans in FY 2013-14.

The FY 2013-14 budget provides an additional \$3.0 million for Obstetric and Neonatal Services and an additional \$2.7 million for Critical Access Hospitals.

**Human Services Funding**

County Child Welfare Needs Based Budget funding will increase by \$15.0 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 \$10.185 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, \$6.5 million is provided to further improve the quality of child care services through enhanced incentives for Keystone Star providers and an early learning quality improvement initiative.

Domestic Violence and Rape Crisis funding will see an increase of \$2.310 million to provide additional services in FY 2013-14.

In FY 2012-13, the New Castle Youth Development Center was closed. Savings related to the closure 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 to include an additional 10 counties. Participation in the block grant is 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 \$2.591 million was added to continue the current program and 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 Pennsylvanians.

Also, 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.

There is \$7 million included in the FY 2013-14 budget to assistance non-public nursing homes with a high percentage of residents on Medical Assistance.

## **DEPARTMENT OF TRANSPORTATION**

### **Responsible Transportation Funding**

The Senate passed a historic transportation plan that within three years would provide \$2.5 billion in new funds. Republican Leadership in the House has refused to consider the Senate passed plan.

### **Transit**

Transit agencies continue to struggle without increased aid. This will result in increased maintenance costs to keep older equipment and facilities running. Transit agencies will need to shift operating funds to maintain older assets causing less available funding to provide service.

The Port Authority of Allegheny County narrowly avoided having to reduce service hours by 35% in August when the Governor announced an additional \$35 million in funding would be appropriated to the Authority. The Southeastern Pennsylvania Transportation Authority faces a backlog of repairs that will continue to grow until a funding source is identified.

### **Funding Crisis**

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 estimated at \$3.5 billion, and that grows each year.

The Senate passed plan largely followed the TFAC recommendations. As the recommendations are unmet, the crisis continues to grow with a real impact on the citizens of the Commonwealth. Bridges will be closed or restricted by weight and mass transit capital projects will be pushed further into the future creating even more congestion on the crumbling roads.

## **MOTOR LICENSE FUND**

The Governor originally estimated that revenues from the Motor License Fund for the 2013-14 fiscal year would be \$2.446 billion. In the 2013-14 budget, the Governor revised that estimate to \$2.408 billion. According to the Governor's adjustments, liquid fuels taxes decreased by \$140,000, motor licenses and fees decreased by \$8.7 million, and other motor license fund revenues increased by \$880,000.

The 2013-14 budget year carries an ending balance of \$18,128,000. This balance will be added to the projected revenues for future years.

There will be continued pressure on the fund as the liquid fuels tax continues to decrease with continued efficiency built into motor vehicles that will result in the cars using less fuel. This pressure was proposed to be relieved by allowing the cap on oil company profits to float upwards. This proposal would have generated significant new revenues to the fund.

### **Transit Programs**

Mass transit programs are funded directly through the Public Transportation Trust Fund. Primary revenue sources for the Public Transportation Trust Fund include a 4.4% share of the state sales tax, payments from the PA Turnpike Commission, and transfers from the Lottery Fund. The enacted budget is anticipating carrying a balance of \$35.6 million over from the current fiscal year into 2013-14 and ending with a balance of \$31.1 million.

Of note is the restoration in the enacted budget from the Governor's proposed budget of funding for the Rail Freight Assistance line item. This line is funded at \$8.68 million in the budget. This program provides grants to private railroads, companies utilizing rail in their shipping process, and public authorities or municipalities that are conduits for rail activities. The benefits from these programs include economic development, environmental quality, less congestion on highways, and land use opportunities.

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

### **EXECUTIVE OFFICES**

The enacted budget for Fiscal Year (FY) 2013-14 includes a total General Fund appropriation of \$172.9 million for the Governor's Executive Offices, representing an increase of 10 percent, or roughly \$15.9 million, from available FY 2012-13 spending levels. Listed below are the notable funding adjustments for the Governor's Executive Offices in FY 2013-14 that, when combined, comprise the overall funding increase mentioned above:

- For FY 2013-14, an increase of approximately \$7.1 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.

- 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. \$4.2 million in new funding has been set aside for this initiative in FY 2013-14.
- The elimination of the “Unemployment Compensation and Transition Costs” line item within Executive Offices, resulting in a savings of \$1.2 million for FY 2013-14. This appropriation paid for the unemployment and transition costs associated with employees of the former Scotland School that was closed. The elimination of this appropriation was anticipated as its funding is no longer necessary.
- An additional \$193,000 for the Juvenile Court Judges Commission (JCJC), increasing its total appropriation to nearly \$2.7 million in FY 2013-14. The JCJC is responsible for the development and improvement of juvenile probation services throughout the commonwealth. This increase will be utilized to continue their current level of operations.
- An increase of \$637,000 for the Pennsylvania Commission on Crime and Delinquency (PCCD), raising its total appropriation to \$3.95 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. A large portion of this increase will be utilized to ensure that victim services programs receive the full allocation of funding planned from the Justice Reinvestment Initiative.
- Also as part of the Justice Reinvestment Initiative, the line item dedicated to Violence Prevention Programs will receive an additional \$2.45 million in FY 2013-14. This increase will be used to support evidenced based delinquency, violence prevention and intervention programs. The \$2.45 million in additional funding enacted for this initiative falls short of the \$3.75 million increase proposed for it by Senate Democrats.
- An additional \$2.5 million has been set aside for the appropriation dedicated to Juvenile Probation Services as another part of the Justice Reinvestment Initiative. 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. Similarly, the \$2.5 million in additional funding enacted for this initiative falls short of the \$5 million increase proposed for it by Senate Democrats.

## **Cultural Support**

The Council on the Arts and Grants to the Arts lines in the Executive Offices are level funded. The grants line is funded at \$8.2 million which falls short of the \$10 million proposed by the Senate Democrats. Grants are distributed on a competitive basis and are awarded through a local decision-making process.

An appropriation of \$2 million is included in the Historical and Museum Commission for Cultural and Historical Support. Last year funding for grants was available through the General Operations Line. Assuming that under this new line grants are distributed as in the prior year, grants will be based on budget size – focused on those museums with operating budgets over \$500,000, and their access to other funds – focused on those with no other source of operating funds.

## **ROW OFFICES**

### **Auditor General**

Under the final budget agreement, total state funding for the Office of the Auditor General is set at \$44.779 million representing an increase of just under \$2.4 million, or 5.6%, over the prior fiscal year. The bulk of this increase is confined within two line items of the Office's itemized budget, which are listed follows:

- An increase of \$612,000 for the Office's General Government Operations (GGO), which will help to address rising pension obligations and health care costs of staff and personnel (as was provided to the other Row Offices).
- A total of \$1.75 million for a new line item entitled "Information Technology Modernization". Funding within this new line item will be utilized to update and modernize the Office's technology infrastructure, which is extremely outdated, so as to increase efficiency and productivity. However, the \$1.75 million in new funding enacted for this initiative falls well short of the \$4 million proposed for it by Senate Democrats as well as the bare minimum of \$3 million requested by the Office.

### **Attorney General**

The enacted budget is at \$87,290,000. This is a little over \$9,000,000 increase over last year. This includes \$2,500,000 for the mobile street crimes unit that has been a priority of the Attorney General. There is also an increase in the local drug and drug strike task force of over \$2,000,000 which is also a priority of the Attorney General. The other big line increase was over \$3,000,000 for the child predator interception unit.

## **Treasury**

The enacted budget contains a slight increase in funding for the GGO of the Treasury. It would be funded at \$32.23 million. The increase is \$476,000 or 1.5% over the Governor's recommend amount, which was the same as the appropriated amount for 2012-13. While some of the increase is for higher pension payments there may be some additional funds contained in the increase. The Board of Finance and Revenue would receive a \$550,000 increase to create an independent tax appeals commission as was proposed in the Governor's February budget. The final year of the Department's computer modernization was not funded at the requested amount of \$12 million, but at only \$9 million.

Expected general obligation debt service costs are \$28 million lower for the 2013-14 fiscal year.

## **DEPARTMENT OF AGING**

### **Family Caregiver Support**

The Family Caregiver Support Program appropriation from the lottery fund will remain at the current year's funding level. 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 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 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 budget maintains funding at the FY 2012-13 funding level for the PACE & PACENET programs.

### **Senior Centers**

The FY 2013-14 provides \$2.150 million in new funding to provide grants to senior centers for the modernization of facilities and programs.

## **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. 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% in the FY 2013-14.

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.

In January, the Administration attempted to enter 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 promised big growth in the first 10 years and minimal growth, 1% each year, the remaining 10 years.

Attorney General Kathleen Kane determined the contract to be unconstitutional and requires legislative approval. No privatization plan is included in the enacted budget.

## **DEPARTMENT OF AGRICULTURE**

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



The Governor's proposed budget called for significant changes to the Department of Agriculture's funding lines. The 2013-14 General Fund level funds the Agricultural Excellence, Agricultural Research, Agricultural Promotion, Education and Exports, and Promotion, and Food Marketing and Research lines after the Governor proposed eliminating them in February.

The lines for PA Preferred Program Trademark Licensing, Hardwoods Research, Livestock Show and Open Dairy Show were also proposed to be eliminated by the Governor, but in the final agreement saw slight increases over 2012-13 funding.

The Animal Health Commission will be funded from the Pennsylvania Race Horse Development Fund. General Government Operations are also cut but by almost \$3.5 million to allow the Pennsylvania Veterinary Lab program to be funded from the Pennsylvania Race Horse Development Fund.

A total of \$10.6 million was transferred from the Pennsylvania Racehorse Development Fund to the Department of Agriculture to fund the Pennsylvania Veterinary Laboratory System and Animal Health Commission.

## **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.

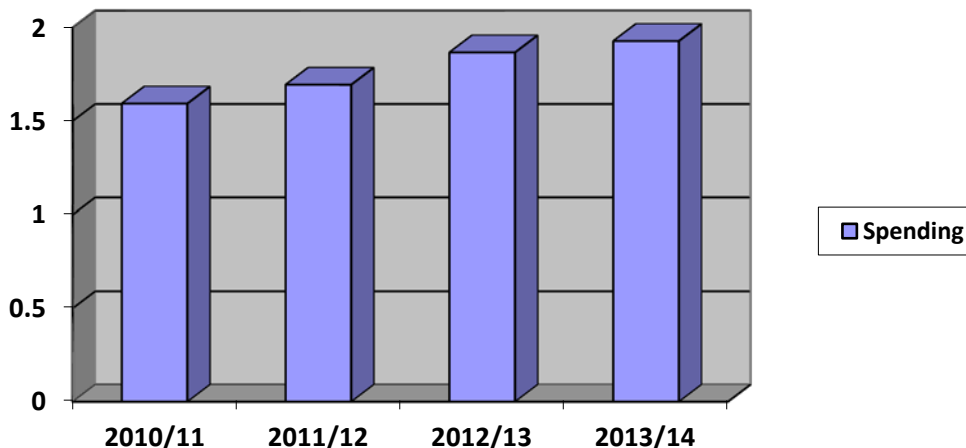
### **FY 2013/2014 Budget**

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

In the enacted 2013-2014 budget, state spending for the Department of Corrections (DOC) is increased to \$1.942 billion. When compared to FY 2012-13 funding levels, this represents an increase of 4%.

## State Correctional Institution Appropriations

(Dollar amounts in Millions)



According to the latest statistics, the commonwealth is currently operating at 3,000 inmates over capacity with an offender population that stands at 51,367. Of this population, 49,663 are housed throughout the State's 26 institutions, while the remaining inmates are housed in Community Correction Centers and other jurisdictions. In 2012, approximately 1,000 inmates who had been temporarily housed in Virginia were able to be returned to Pennsylvania due to a steadying of its inmate population. As a result, there are no longer any PA inmates being housed outside the state.

For FY 2013-14, the enacted budget contains an increase of \$63 million for the commonwealth's institutional system, raising its total funding to \$1.642 billion. This increase will primarily be used to address rising pension and health care costs of staff and personnel. Also factored into the appropriation for the institutional system are savings resulting from the closure of SCI Greenburg and Cresson and the opening of SCI Benner Township. The increase of \$63 million is nearly \$29 million more than was requested by Senate Democrats in their budget proposal. The Senate Democratic proposal would have, instead, focused more resources to inmate training and crime prevention programs, while still accounting for the aforementioned rising pension and health care costs of staff. This would have helped to curtail recidivism rates and the number of new individuals entering our prisons, thereby reducing the total amount of funding needed for the commonwealth's institutional system.

In addition to this increase, the Department will also transfer \$43,000 to the Justice Reinvestment Fund to distribute prior year savings from the JRI. This transfer of savings was originally anticipated to be \$761,000, but the JRI did not reduce the prison population as expected and the full projected savings were not realized. However, the Department believes that this is because the initiatives within the JRI have not been in place long enough to achieve the results expected.

## **Medical**

The enacted budget institutes a \$9.86 million increase for inmate medical care in FY 2013-14. The majority of this increase 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 enacted FY 2013-2014 budget, the appropriation for the General Government Operations of the Board of Probation and Parole is increased by \$9.6 million, or 8.7%, over FY 2012-13. The majority of this increase will be used to continue current programs. However, a portion of this increase has also been set aside for new initiatives. The first of these new initiatives will provide staffing to monitor the anticipated increase in workload resulting from the Justice Reinvestment Initiative and to enhance reentry programs. The remaining initiatives will provide for GPS monitoring as well as 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 FY 2012-13 projections.

The Sexual Offenders Assessment Board would receive an additional \$285,000 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 FY 2012-13 collections.

## DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

The Department of Community and Economic Development (DCED) fiscal year 2013-2014 General Fund appropriation totals \$236.3 million. The Center for Local Government Services will now be funded through a separate line item and removed from General Government expenditures. A transfer of \$4.5 million for the City of Harrisburg is included within the operating budget.

Although the enacted budget provides modest increases over last year's budget in key economic development programs, such investments are insufficient to spur real economic development and job growth. After ranking 8<sup>th</sup> in the nation in job growth just a few years ago, Pennsylvania currently ranks 45<sup>th</sup> in job growth. In an effort to reverse this trend, funding for *Marketing to Attract Business* was significantly increased over last year's budget from \$941,000 to \$3.4 million to promote domestic and foreign investment in Pennsylvania. In addition, *Marketing to Attract Tourists*, a key industry which generates tax revenues each year for state and local governments, received an increase from \$5.8 million to \$7.4 million.

The 2013-14 FY budget also increased funding to *World Trade PA* from \$6.1 million to \$7.2 million to promote Pennsylvania exports in key international markets and to attract foreign investments in Pennsylvania. In addition, *Pennsylvania First* received an additional \$8.3 million, or an increase from \$29.5 million to \$37.8 million to further facilitate investment and job creation to enable Pennsylvania to more effectively compete in the global economy. A \$500,000 increase to provide \$11.3 million was allocated to *Keystone Communities*, which was established to support local community development initiatives.

The budget for DCED fails to adequately fund a number of programs which could provide real stimulus to the economy and to communities across the Commonwealth. The Senate Democrat's plan, on the other hand, would have increased DCED's General Fund appropriation an additional \$23.6 million, or from \$236.3 million to almost \$260 million with targeted investments in critical areas designed to get Pennsylvania's economy back on track. The Senate Democratic budget would, among other things, increase spending for *World Trade PA* from \$7.2 million to \$9.5 million; increase *Pennsylvania First* from \$37 million to \$39.5 million; and *Keystone Communities* from \$11.3 million to \$20 million.

The budget also keeps funding flat at \$1.7 million for *Early Intervention for Distressed Municipalities* while significantly reducing funding by \$5 million, or from \$12 million to \$7 million for *The Municipalities Financial Recovery Program (Act 47)*. Recovery plans have been completed in 27 municipalities, and are being implemented in the 21 currently-distressed municipalities. Over the past year, updated recovery plans were implemented in Scranton, New Castle and Chester, while the City of Harrisburg continues the monetization of assets. Comprehensive and new reforms of Act 47 must still be enacted to adequately address the institutional and systemic financial problems facing municipalities statewide.

The Ben Franklin Technology Partners establish to support financial and technical services for early stage and emerging technology companies, again received \$14.5 million although it has historically received over \$50 million for such key investments. Fortunately, this budget also directs *Innovate PA* tax credits to the Ben Franklin Technology Partners, the Venture Investment Program and the Life Sciences Greenhouses to increase technology investment.

The Governor's 2013-2014 FY budget continues the same misplaced priorities as past years and fails to move Pennsylvania in the right direction. By contrast, the Senate Democrat's budget offers a path forward to economic growth and prosperity by investing in Pennsylvania's economy and working families.

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

The enacted budget for fiscal year (FY) 2013-14 contains a total General Fund allocation of roughly \$30 million for DCNR, representing a decrease of approximately \$22.7 million, or 43%, over the prior fiscal year. This decrease is largely attributed to a sizable reduction in funding for the Department's State Parks Operations. State funding for State Parks Operations in the enacted budget is down \$20 million over the prior fiscal year, from \$26.1 million to \$6.1 million. However, additional monies will be made available from the Oil and Gas Lease Fund to supplement the operations of 120 state parks located in 61 of 67 counties throughout the commonwealth. These additional monies will not only offset the aforementioned reduction in state funding for State Parks Operations, but will also slightly increase its total funding (including federal, state, and other funding sources) by almost \$2.5 million over the prior fiscal year.

In addition to this adjustment, the enacted budget restores state funding for the Department's Heritage Parks program thanks, in part, to efforts by Senate Democrats. The Heritage Parks program provides funding for a system of state parks that preserve and promote significant contributions that areas of the commonwealth have made to the industrial heritage of the state. State funding for the program has been reinstated in the enacted budget in the amount of \$2.25 million, after being zeroed out the past two budgets and absent from the Governor's proposal.

Another notable change within the enacted budget for DCNR concerns its line item for Forest Pest Management. Funding for Forest Pest Management has been consolidated into the Department's 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. Only \$2.2 million in state funding has been set aside for State Forest Operations in FY 2013-14, despite this consolidation. However, additional funding from the Oil and Gas Fund will be made available for State Forest Operations to negate this decrease.

Aside from discussing specific line item appropriations, the Department will also continue to receive its traditional allocation from the Oil and Gas Lease Fund. Roughly \$106.5 million, assuming additional augmentations are made at the Governor's proposed level, will be transferred from the Fund to the Department in FY 2013-14, which is approximately \$37 million more than was transferred in FY 2012-13. This transfer of funding will supplement operational costs of the Department, which include its State Forest and State Parks Operations, as alluded to above. In addition to this transfer, \$20 million from the Oil and Gas Lease Fund will be provided to the Marcellus Legacy Fund, which will provide for various conservation measures as part of ACT 13.

After these two transfers are made, the Oil and Gas Lease Fund will only carry a balance of roughly \$1.1 million heading into the 2014-15 fiscal year. This marks a disturbing trend as recent budgets, including the enacted agreement for FY 2013-14, have been spending more than the Fund has been pulling in, almost entirely depleting the surplus it has been carrying. More and more money is being utilized from the Fund to back-fund the Department and make-up for General Fund cuts to its line items. For FY 2013-14, more than one-third of the Department's total budget 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.

In addition to the money provided by the Oil and Gas Lease Fund, the Department will 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. DCNR is set to receive a \$43.7 million transfer from the Fund in FY 2013-14, which represents an increase of \$1.5 million over FY 2012-13.

## **DEPARTMENT OF EDUCATION**

The final budget agreement includes an additional \$129.9 million or a 2.4 percent increase for the basic education subsidy line. This includes \$30.26 million in supplements to 21 financially stressed or rapidly growing districts, which is shown on the chart on the next page. In a separate line, the Duquesne City School District will receive a \$2.5 million supplement. The Governor requested only a \$90 million increase for the basic subsidy line.

**2013-14 BEF Supplements**

<b>County</b>	<b>School District</b>	<b>TOTAL</b>
Beaver	Midland Borough	\$250,000
Berks	Reading	\$1,500,000
Centre	Penns Valley Area	\$500,000
Chester	Coatesville Area	\$500,000
Clearfield	Philipsburg-Osceola Area	\$500,000
Delaware	Southeast Delco	\$438,970
Delaware	William Penn	\$561,030
Delaware	Upper Darby	\$2,500,000
Erie	Iroquois Area	\$497,648
Erie	Union City Area	\$502,352
Lancaster	Lancaster	\$2,410,641
Lebanon	Lebanon	\$1,041,073
Lehigh	Allentown City	\$8,000,000
Luzerne	Hazeltown Area	\$1,000,000
Monroe	Pocono Mountain	\$2,000,000
Monroe	Stroudsburg Area	\$1,500,000
Potter	Austin Area	\$250,000
York	Dover Area	\$500,000
York	Northeastern York	\$200,000
York	West York Area	\$160,000
York	York City	\$5,448,286
<b>TOTAL</b>		<b>\$30,260,000</b>

Since taking office in 2011, this Administration has cut classroom 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. Reductions to basic education funding have forced school districts to raise property taxes, cut programs, and lay off personnel. The poorest schools have been hit the hardest. In addition, pension costs for school districts will increase 4.5% for FY 2013-14.

Our Senate Democratic budget plan included an investment of \$300 million in various education programs including funds for financially distressed schools, charter school reimbursements, Accountability Block Grants and tutoring. This was year one of a three year plan to restore funding to school districts that the Administration had cut.

A third survey done by PASA/PASBO shows that the financial condition of Pennsylvania's school districts continues to decline, setting off a third round of program and personnel cuts for the 2013-14 school year with 75% of school districts reducing instructional programming; 47% of school districts increasing class size; 30% of school districts reducing elective courses; 22% of school districts reducing or eliminating programs that provide extra help or tutoring for struggling students; 13% of school districts eliminating summer school programs that provide students the opportunity to make up academic credit that will allow them to be promoted to the next grade level or to graduate on time; and 64% of districts will leave positions vacant and over 20% are planning to implement furloughs.

The budget includes \$100 million for Accountability Block Grants (ABG), level funding from the prior year. The program provides funding for programs such as pre-kindergarten, full-day kindergarten, and class size reduction.

The budget agreement includes \$10 million for a Financial Recovery Transitional Loan Program, as in the prior year, to provide loans to school districts in financial recovery status (currently Chester Upland, Duquesne, Harrisburg and York City) 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. In this budget, the program is funded primarily from unexpended monies within the Department.

In addition, \$4.5 million in unexpended Department funds may be available to the Department to assist those four districts, as well as those in Financial Watch status (currently Aliquippa, Reading, Steelton-Highspire and Wilkinsburg).

The General Government Operations appropriation is increased \$194,000 to reflect costs of the Special Education Advisory Commission. In addition, \$775,000 in augmentations provided through a \$25 increase to the \$100 teacher certification fees is included to provide for timely review and resolution of educator misconduct complaints. The Department will set up a new division under the Chief Counsel to prosecute misconduct by professional educators.

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 flat-funds the special education line, at \$1.027 million. The Governor had proposed 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 have resulted in a pro rata reduction in the current funding amounts to districts and IU's. This is not included in the final budget agreement. The administration has also said that sequestration will mean a decrease of \$22 million in federal special education funding for Pennsylvania next year.

Funding for the Chartered Schools for the Deaf and Blind receives a slight increase to be used for their rising pension costs.

Funding for Career and Technical Education programs is held at the prior year level of \$62 million. A new \$3 million equipment grant program for vocational-technical schools is provided. Half of the funding is allocated to the schools on an equal basis; the other half is based on their student count. With the approval of the Department, grants can be used to purchase equipment for the purpose of training students.

Early Childhood Education programs are funded in both PDE and DPW. Funding in PDE for the Pre-K Counts program is \$87.3 million, an increase of \$4.5 million, which will provide 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, increases by \$1.9 million, to serve an additional 210 children in early learning programs.

The school code includes a one year extension of the moratorium on PLAN CON building projects for next fiscal year and provides for an analysis of school facilities and future capital needs with the report due May 1, 2014.

Early Intervention, which provides services and support for children with developmental delays, will receive a funding increase of \$5.0 million, and expand services to 1,500 additional children from ages 3 to 5.

The budget includes \$8.5 million for a Safe Schools Initiatives, an increase from the current year of \$6.5 million. Senate Bill 10 (not signed into law yet) establishes a new program within the Office for Safe Schools, to provide dedicated grant funding to school entities and municipalities for the purpose of training and hiring armed guards to provide security for school entities and nonpublic schools, and to fund programs that focus on prevention initiatives. A House amendment added emergency preparedness and all-hazards plans and conducting emergency preparedness drills and related activities with local emergency responders as being eligible uses for the grants.

There are three line items for Nonpublic Schools. Specifically, Services to Nonpublic Schools and Textbooks and Materials are flat funded, while Transportation for Nonpublic and Charter Schools will receive a slight increase.

The Teacher Professional Development appropriation is flat funded. The PA Assessment line is increased by \$1.5 million to support existing state and federally mandated tests. The Governor had requested an increase of \$3.8 million. 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 . 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 final budget restores funding for the Mobile Science Education Program (\$864,000) and Job Training Programs (\$8.05 million), both of which the Governor had proposed to eliminate. In addition, a new line item for Career and Technical Education Equipment Grants is included at \$3 million.

## **HIGHER EDUCATION INSTITUTIONS**

The final budget for higher education includes flat funding for the state-owned universities and community colleges operating monies, and only very modest increases for the state-related universities -- Penn State and the University of Pittsburgh; Lincoln University fared a bit better. Temple receives no increase.

No funding increase was one of the recommendations of the Governor's Commission on Post Secondary Education, which also included 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 recommended 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 asked the universities to keep down their tuition increases for next year.

### **Community Colleges**

The budget includes flat funding for community colleges for operating; capital funding is increased \$1 million. Funding for Regional Community College Services receives 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 45<sup>th</sup> in net new job creation among the 50 states. 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. Acknowledging that 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, our Senate Democratic budget plan would have included an increase for operating of \$1.9 million and \$1.5 million for capital.

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

The final budget for higher education includes flat funding for the state-owned universities. 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 includes \$12.1 million for PASSHE's share of the Keystone Recreation, Park and Conservation Fund, used for deferred maintenance projects.

### **State Related Universities**

**Penn State University:** The University will receive \$229.6 million, essentially flat funding. Penn College of Technology will receive an increase of \$2 million.

**Lincoln University:** The University will receive \$13 million, a \$2-million increase.

**Temple University:** The University will receive flat funding (\$139.9 million),

**University of Pittsburgh:** The University will receive \$136.2 million, an increase of about \$200,000.

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

### **PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY**

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

## **Grants to Students**

The Grants to Students appropriation comprises the largest portion of the PHEAA state appropriation. For 2013-14, state funding will be \$344.88 million. Additionally, PHEAA will direct \$75 million from its business earnings to supplement the State Grant Program for a total of \$419.88 million. This is the same amount that was available in the prior year.

It is anticipated that the number of eligible grant recipients for fall 2013 will be 182,000. Flat funding the 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 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.

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

## **Distance Education Pilot Program**

PHEAA is contributing \$10 million from its business earnings to fund a 5 year pilot program which would allow PHEAA Grants to be available for eligible students wishing to pursue a degree through online (distance) education. Currently, grants are restricted to students enrolled in an approved program of study that requires at least 50% of the credits needed for completion of that program to be earned through classroom instruction. This prevents students who are eligible for a PHEAA Grant from seeking a degree via distance learning as compared to face-to-face learning.

As part of the pilot, PHEAA will collect data on performance of distance learning programs and establish guidelines for the program.

## **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. As in the prior year, \$5 million is provided from PHEAA business earnings.

## **PENSIONS**

The Governor proposed unprecedented changes to the pension benefits for current members of the two pension systems in his February budget in order to control costs. The unfunded liability of the two funds is now \$46 billion. Nearly 80% of all money going to the school employees' retirement system (PSERS) and the state employees' retirement system (SERS) over the next 25 years will be to pay off that unfunded liability.

The Governor's proposal was not enacted. However, additional savings were found for the state's share of PSERS costs. The pension fund calculates the employer contribution based on assumed payroll. Over the last 2 years the assumed payroll, which was based on historic growth patterns, has not followed those patterns. Due to lower wage gains and the unprecedented laying off of school personnel, wages have grown significantly less than usual. This change in payroll growth patterns caused the state to contribute \$136 million more than was necessary for pension payments. The enacted budget utilized that overage to reduce this year's state pension contribution for PSERS from a projected \$1.28 billion to \$1.02 billion. The increase is still \$161 million more than last year's amount.

The Governor's proposed budget built in smaller contributions to SERS for state employees based on his proposed changes to the pension law. When it became apparent that those changes were unlikely to become law, the budget for employees SERS contributions was increased before it passed the House. Throughout this report small increases in the general government lines have been highlighted. Most of these increases are to restore pension expenses since the Governor's pension proposal did not pass.

## **DEPARTMENT OF ENVIRONMENTAL PROTECTION**

The enacted budget provides a modest increase in funding for several line items within the Department of Environmental Protection (DEP). That any of the line items are increased is a break with the recent past. 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 Senate Democratic budget proposal would have made over \$2 million more in resources available to DEP to better protect the commonwealth's environment.

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. While many appropriations received some increase to pay for higher than budgeted pension costs the DEP's General Government did not.

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, received a 2.2 percent increase, which is \$1.67 million. This is slightly less than what the Governor proposed and with increased pension costs factored in it provides even less funds for environmental protection.

The Governor proposed ending General Fund payments of \$2.8 million to the county conservation districts since the conservation districts will receive \$2.5 million from the Marcellus shale impact fee. 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. The enacted budget however, restored the payments to conservation districts at \$2.5 million, slightly less than they have been receiving.

The budget also re-instituted sewage facilities planning grants, which the Governor had removed over the last 2 years. \$200,000 was provided in HB1437.

## **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, Pennsylvania State Police, Department of Revenue, and Attorney General.

Upon being signed by the Governor, HB 1282 will allocate the following appropriations for gaming regulation:

PA Gaming Control Board - \$36.9008 million.  
PA Department of Revenue – \$9,513,000  
PA State Police - \$22,531,000  
Attorney General - \$1,017,000

### **PROPERTY TAX RELIEF FUND**

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

On April 15, 2013, Budget Secretary Zogby certified that \$782.5 million will be available for property tax relief in FY 2013-14. The distribution is as follows:

- \$611 million for general school district property tax relief. This figure includes approximately \$86.2 million for resident and non-resident wage tax relief in Philadelphia.
- \$16.6 million to reimburse school districts for revenues lost due to the Philadelphia wage tax.
- \$137.7 million for the expansion of the Senior Citizen Property Tax and Rent Rebate Program
- \$29.8 million will be transferred to the Lottery Fund for supplemental senior citizen property tax rebates

## **DEPARTMENT OF GENERAL SERVICES**

The Department of General Services (DGS) General Fund appropriation totals \$116.4 million for the 2013-14 Fiscal Year, which amounts to a \$1.1 million decrease in General Government Operations. This appropriation provides funding for property and facilities management, space acquisition and utilization, procurement, public works, and administrative support operations for the Department. The Department also receives an appropriation for Excess Insurance Coverage, Federal and State Surplus, Commonwealth Media Services, Co-Stars and Capitol Police Operations.

Funding for rental and municipal charges remained flat at \$22.9 million, while Capitol Police Operations increased from \$11.2 million to \$11.4 million. Utility costs were reduced from \$24.5 million to \$21.1 million, and the Excess Insurance Coverage was reduced from \$1.6 million to \$1.2 million. Emergency fire protection services to the Capitol Complex, which has historically been underfunded, was increased from \$2.5 million to \$5 million.

## **DEPARTMENT OF HEALTH**

### **AIDS Programs**

The enacted 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 was included in the Governor's proposed 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 was intended to increase recruitment and retention of more primary care physicians and practitioners into rural and underserved areas.



The Republican budget eliminated this increase and maintained the budget at the current funding level.

### **Cancer Programs**

The enacted 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.

### **Bio-technology Research**

The enacted budget provides an increase for this program of \$1.064 million in FY 2013-14. Bio-technology research. Bio-technology research companies have a great economic impact on Pennsylvania. For every dollar given by the Commonwealth to those programs, \$10 additional are raised through other funding services. Additional funding will also be used for a study related to nanotechnology and for the commercialization of applied research.

### **Other Health Programs**

Funding for Adult Cystic Fibrosis and other Chronic Respiratory illnesses sees an increase in the enacted budget for FY2013-14 of \$0.300 million.

Funding for Trauma prevention, Hemophilia and Tourette Syndrome also realize a slight increase in the enacted budget for FY 2013-14.

There is an additional \$0.050 million included in the General Government Operations funding line for outreach to identify children in need of professional eye exams or coordination of donated dental services.

## **DEPARTMENT OF INSURANCE**

The FY 2013-14 budget includes a plan 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 budget includes a \$4.0 million increase in funding to CHIP, to provide health insurance coverage to additional 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.

There is also \$4.986 million included to continue the current program in FY 2013-14.

### **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.

## **JUDICIAL**

The appropriation for the Judiciary is \$317.432 million for FY 2013-2014. This represents an increase of \$9.24 million from the Governor's initially proposed budget. The increase is distributed throughout the Judiciary.

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

<b>Judicial Department</b>	<b>FY 2012-13 Appropriation</b>
Supreme Court*	\$48,045,000
Superior Court	\$27,207,000
Commonwealth Court	\$16,536,000
Courts of Common Pleas	\$105,649,000
Magisterial District Justices	\$74,193,000
Philadelphia Municipal and Traffic Courts	\$6,857,000
Court of Judicial Discipline	\$468,000
Judicial Conduct Board	\$1,577,000

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

Additionally these programs will receive the following amounts which are an increase from the level funding of the prior fiscal year:

- Juror Cost Reimbursement--\$1.577 million.
- County Court Reimbursement--\$34.407million
- Senior Judge Reimbursement --\$1.375million

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

Act 49 (2009) was extended with the passage of Act 30 (2011) and will expire December 31, 2014.

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

<b>Account</b>	<b>Fee</b>	<b>FY 2013-14 Estimated Revenue</b>
JCS	\$10.25	\$25.398M
CJEA (DA's)	\$2.25	\$5.573M
ATJ—Legal Services	\$1	\$2.478M
Total	\$13.50	\$33.449M

## DEPARTMENT OF LABOR & INDUSTRY

There are relatively few changes contained within the enacted budget (FY) 2013-14 budget for the Department of Labor and Industry. Total state funding for the Department is set at \$72.6 million for FY 2013-14, nearly the same as it was in FY 2012-13, meaning many of its line items would see little-to-no funding changes over the prior fiscal year. The handful of line items with noticeable changes over the prior fiscal year are listed as follows:

- An increase of \$250,000, or 2%, for the Department's General Government Operations, which will help to address rising pension obligations and health care costs of staff and personnel.
- A 9.6%, or nearly \$1 million, increase for the Department's Occupational and Industrial Safety line item. The Occupational and Industrial Safety appropriation provides funding for the administration and oversight of a variety of laws, including the Uniform Construction Code and Boiler and Unfired Pressure Vessel Law, related to the safety of the public and employees. This increase, a portion of which will be utilized to hire additional boiler inspectors, raises the total allocation for this line item to \$11.18 million.
- A reduction of \$1.5 million for the Keystone Works appropriation, lowering its total funding from \$2.5 million in FY 2012-13 to \$1 million for FY 2013-14. The Keystone Works program, a budget initiative of Governor Corbett, is designed to match those collecting unemployment benefits with eligible businesses for on-the-job training. Funds appropriated to this program are made available to participating businesses that hire trainees for a minimum of 30 hours per week. The reduction for Keystone Works is unsettling when noting that it is one of the few remaining state funded job training initiatives within the Department.
- An increase of slightly more than \$150,000 for the Assistive Technology Devices line item, as requested by Senate Democrats, which helps to provide devices to disabled persons that assist them on their paths to independence and employment. This increase will help to leverage additional federal dollars for the purchase of new equipment.
- An increase of \$200,000 for the Industry Partnership initiative, raising its total appropriation to just over \$1.8 million. This initiative helps to bring together companies with similar markets and human resource needs in an effort to further develop their workforce for the benefit of their entire industry.

- Funding for New Choices/New Options has been set at \$500,000 in the enacted budget thanks, in part, to efforts by Senate Democrats. This initiative offers career counseling, job search assistance, and funding for continued education to single parents/displaced homemakers with the goal of helping them achieve economic self-sufficiency. Although unchanged over FY 2012-13, the inclusion of this funding is important to note after the Governor proposed to eliminate it.

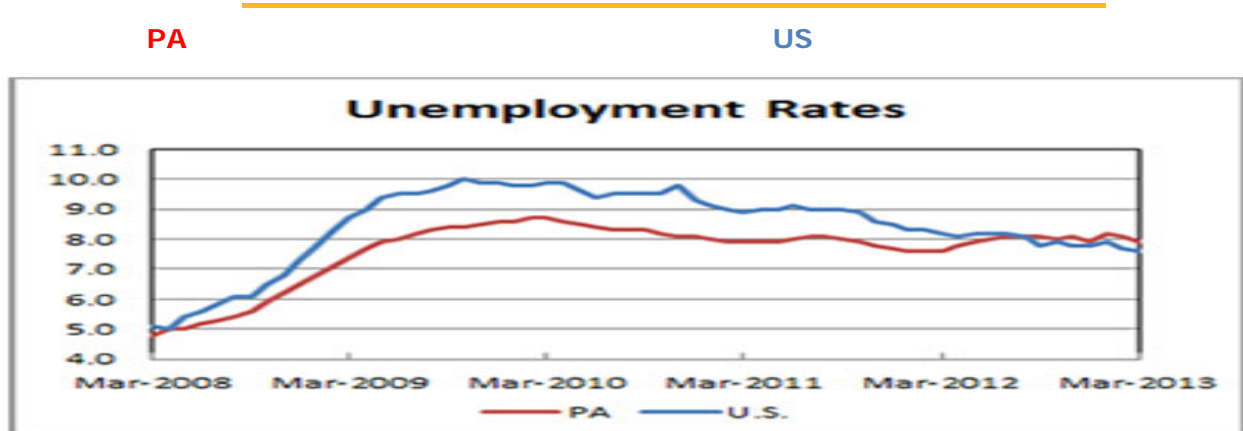
### **Jobs Update**

Pennsylvania's seasonally adjusted unemployment rate declined slightly to 7.5 percent in May 2013, down 0.1 percent from April 2013, marking a fourth consecutive monthly drop in the state's rate. Over the prior month, the number of unemployed individuals declined by more than 8,300, with the total number of jobless individuals in the commonwealth standing at roughly 488,000. As a result of this decline, PA's unemployment rate for May 2013 dipped below the national unemployment rate of 7.6% for the first time in the last ten months of record. Despite this good news, PA still has a lot of catching up to do with its surrounding states, as well as the rest of the nation, in terms of improving its unemployment picture. Year-over-year, the commonwealth's unemployment rate only dropped 0.4%, while its neighbors New York, New Jersey, and West Virginia saw much larger declines in their rates over this same period (N.Y. 1.0 % decline; N.J. 0.9% decline; W.V. 1.1% decline). The national unemployment rate has also outpaced the commonwealth in its decline over this time-frame, dropping by 0.6%.

The news for the commonwealth on the employment front in May 2013 was far gloomier. Pennsylvania lost approximately 9,200 jobs (non-farm) over the prior month and is now down 2,200 jobs (non-farm) since the conclusion of 2012. What's worse, year-over-year employment growth in the commonwealth only stands at a meager 4,700 jobs (non-farm) added, a far cry from gains seen not long ago in the state (107,000 non-farm jobs added in February 2011). Five out of the six states that surround PA saw larger year-over-year employment gains in the month of May than the Commonwealth, with New York (95,000 non-farm jobs added) and New Jersey (75,000 non-farm jobs added) topping out this list. What's more, year-over-year employment growth for the national economy stood at over 2.1 million jobs (non-farm) added in May 2013. However, the commonwealth's struggling year-over-year employment growth should come as no surprise, as the decisions made by this Governor have caused annual job gains to precipitously decline over the last two years (by more than 50%), while job gains nationally increased over this same period. As a result of his misguided approach, the commonwealth has dropped from a ranking of 8<sup>th</sup> in the nation in 2010 to 45<sup>th</sup> currently for net new job creation among all 50 states, causing it to fall further and further behind the pace of the national recovery.

# May 2013

	PA May '13	US May '13
<b>Civilian Labor Force</b>	6,520,976	155,658,000
Employment	5,740,400	135,637,000
Unemployment	488,162	11,760,000
Unemployment Rate	7.5%	7.6%



Change From	May 2012	Apr. 2013
• Employment:	↑ 4,700	↓ 9,200
• Unemployment:	↓ 22,974	↓ 8,351
• Unemployment Rate:	↓ 0.4	↓ 0.1

## DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)

The Department of Military and Veterans Affairs has avoided dramatic reductions and cuts to its funding levels since Governor Corbett took office. For the most part, the budget for FY 2013-14 intends to; once again, maintain Department funding over its enacted FY 2012-13 levels, with the following exceptions:

- \$50,000 increase to the American Battle Monuments program.
- An increase of almost \$2 million for the Department's General Government Operations (GGO). This is due in part to provide enhanced security at Fort Indiantown Gap and to implement software to streamline payroll processing for PA National Guard members.
- As a result of increased federal reimbursements, \$3.3 million is cut from the Veterans' Homes line.

- Although it was not in the Governor's proposal, there is \$200,000 added to Veterans Assistance. This was slated to be moved to the Veterans' Trust Fund restricted Account.
- The Civil Air Patrol line was restored and funded at \$100,000.

## **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 2013-14 FY budget allocates \$191.3 million from the General Fund and \$624 million from the Motor License Fund.

The budget will 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.

Despite being slated for elimination, the Forensic Laboratory Support line, will be funded at \$1.5 million in 2013-14.

From restricted accounts the State Police will receive the following:

- \$4.5 million Firearm Records Check Fund,
- \$25.9 million from the State Stores Fund and
- \$22.5 million from the State Gaming Fund for expenses related to Gaming

## **PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY**

The Emergency Management Agency (PEMA) will receive \$17.1 million from the General Fund for the 2013-2014 FY. While this represents a significant cut, most of the previous fiscal year funding was due to natural disaster relief.

PEMA receives the majority of its funding through federal money, the bulk of which is \$21 million for Civil Preparedness, the same level as FY 2012-13. The Hazard Mitigation line item was cut from \$11 million in 2012-13 to \$3 million in 2013-14 due to a lack of need for matching disaster relief funds.

PEMA will receive \$25 million from the State Gaming Fund and \$5 million from the Property Tax Relief Fund, both via Executive Authorization. PEMA is also set to receive \$110 million from the Wireless E-911 Emergency Services Fund.

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

## **DEPARTMENT OF REVENUE**

The Department's general government appropriation would receive a small increase of \$400,000 under the enacted budget to institute a new independent tax appeals commission. This new commission would be a joint venture with the Treasury Department. Language in the fiscal code authorizes the continuation of the enhanced revenue collection unit at a cost of \$10 million. There are no additional funds included in the enacted budget however, as that cost will be offset by the additional tax revenue collections made possible by the work of the unit.

The enacted budget decreased the technology appropriation from \$14 million in the Governor's proposed budget to \$11 million. 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% of that comes from the General Fund.

This budget funds the Department of State for FY 2013-14 at a total of \$11.1 million from the General Fund. General Government Operations will see a slight increase, but that increase comes from cuts within the Department. Lobbying Disclosure, Voting of Citizens in Military Service and County Election Expenses all see cuts and the funding for the Electoral College is eliminated for this fiscal year.

Despite being proposed to be level funded, the line for Voter Registration is increased by \$2.1 million due to the potential of further litigation regarding the Commonwealth's ill considered Voter ID law.

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