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## GENERAL FUND

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

The Governor assumes that the current revenue deficit of \$41 million will completely disappear through the end of the fiscal year to close at the original estimate of \$28.119 billion. That would require collections to reverse their course so far this year and close the current shortfall that has since the end of November steadily worsened. The Independent Fiscal Office is expecting a small deficit of \$70 million by year's end.

The corporate net income tax is currently running \$88 million over the official estimate and the big collection months are still ahead of us. Personal income tax (PIT) collections are, however, currently \$100 million below estimate and have been below estimate nearly every month of this fiscal year. Collections of the sales tax are much closer to the official estimate as they are \$22 million below estimates.

The Governor anticipates a need for \$70 million for supplemental appropriations, which will primarily be within the Department of Public Welfare. He is expecting to find lapses from current year spending to exactly offset the supplemental appropriations requirements. The 2013-14 fiscal year would end with a general fund surplus of \$215 million. This surplus will be generated almost entirely from lapsing prior year appropriations, mostly from FY 2012-13, of \$251 million.

### **2014-2015 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 \$657 million savings that would be realized by simply refusing to pay the required amount for FY 2014-15. He will pretend that the changes alluded to today to the pension system will justify these reductions. They don't. The vague changes proposed today will reduce the costs of the pension system in 15 years. This Governor will instead reduce his payment to the accrued debt and push the responsibility onto the next Governor. The immediate effect of his plan is to simply reduce the collars so this year's cost is artificially lower. This will drive up the unfunded liability and decrease the funded ratio of the pension funds.

**Revenues:**

Next fiscal year's budget anticipates revenue growth from existing taxes of \$1.2 billion or 4.12%. Such growth from current taxes would more than double the current fiscal year's growth of \$469 million or 1.64%. The Governor finally anticipates some rapid economic growth. And, since even this rapid growth wasn't enough to balance his proposed budget he also proposed two one time sources of revenue to bring an additional \$225 million into the General Fund.

Even though personal income tax collections are, through the end of January, \$100 million below estimates, the Governor is projecting growth for the 2014-15 fiscal year of \$650 million or 5.5%. This would be nearly double the growth expected from the income tax this year.

The Governor also proposes to allow the scheduled capital stock and franchise tax rate to decrease by .22 mills on January 1, 2015 which will reduce revenues by \$20 million for the upcoming fiscal year. He would further allow the tax to be fully phased out starting on January 1, 2016 which will reduce revenues by \$280 million.

Act 90 of 2013 expanded the Local Option Small Games of Chance Act to permit bars, taverns and certain other liquor license holders to conduct small games of chance on the licensed premises. The first revenue collections are included in the Governor's budget presentation. Revenue estimates at the time of passage claimed that the Commonwealth would generate approximately \$36 million in FY 2013-14 and \$156 million in FY 2014-15. The Governor's proposed budget drastically reduces those estimates to \$4.9 million in FY 2013-14 and \$102 million in FY 2014-15.

To further enhance revenues, the Governor proposes escheat changes and transfers from the Oil and Gas Lease fund worth \$225 million. Both of these changes are one time revenue enhancements to help pay for permanent tax decreases or continuing spending. The escheat proposal would decrease the dormancy period that banks hold unclaimed accounts from 5 to 3 years. For the first time under Governor Corbett, \$75 million of Oil and Gas Lease Fund money would simply be transferred to the General Fund to balance the budget.

**Expenditures:**

The Governor is proposing expenditures of \$29.19 billion for the 2014-2015 fiscal year. That would be an increase of nearly a billion dollars or 3.5 percent more than was appropriated this fiscal year. In his mid-year budget briefing the Governor listed \$1.8 billion in increased expenditure costs that were unavoidable. Those costs included \$600 million in increased pension costs, most of which are not funded in his budget and \$650 million in increased medical assistance and long term care costs.

Below is a simplified balance sheet (financial statement) that shows what the Governor believes the 2014-15 FY budget should look like:

| (Dollars in Millions)  |                  |
|------------------------|------------------|
| Beginning Balance:     | \$215            |
| Expected Tax Revenues  | \$30,315         |
| One Time Revenues      | \$225            |
| Tax Refunds            | - <u>\$1,310</u> |
| <b>Funds Available</b> | <b>\$29,446</b>  |
| <br>                   |                  |
| Expenditures           | \$29,419         |
| <br>                   |                  |
| <b>Ending Balance</b>  | <b>\$26.9</b>    |

The remainder of this report will provide the details of this budget proposal. The report highlights each agency's proposed spending cuts or increases that build the budget the Governor laid out today. It is important to remember that each Department will have increased costs for both health care costs and pension benefits that are somewhere around 8%, 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.

## LOTTERY FUND

The Lottery Fund is expected to emerge from the FY 2013-14 budget year in excellent shape with a balance of \$188.513 million, with an additional \$75 million in reserve to satisfy the needs of the Rent and Property Tax Rebate Program. Ticket sales are expected to grow by about \$228 million or 6.1% 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 tens of billions of dollars for vital senior citizens programs ranging from PACE prescription drug assistance to the Property Tax and Rent Rebate Program.

The FY 2014-15 budget assumes revenue growth derived from extending relief from mandatory return requirements, improving the retail experience, growing the player base, expanding the retailer base, stemming the decline in draw-based games, and expanding the Lottery's game portfolio to include Keno. These are all items that were presented as part of the failed Private Management Agreement with Camelot.

## PENSIONS

The Governor unilaterally reduced the required contribution to the two pension funds in his budget proposal today. The crux of his proposal is to cut in half the increase that was required to pay off the \$46 billion unfunded liability of the two pension funds. Act 120 limited the growth of the employer's contribution to 4.5% each year. The Governor's budget proposal would cut the increase in half to 2.25%. The "savings" realized would amount to \$270 million from the general fund for the 2014-15 fiscal year. The Governor happily spends these so called savings elsewhere in his proposed budget. Meanwhile the debt from his underfunding would continue to grow.

The Governor's proposed budget lists a vague proposal to "move new hirers into a 401(k) type system to reduce costs" 15 years from now; that somehow justifies underfunding the pension obligation next year. The exact proposal is still being developed.

As usual, any increase in the cost of the state employee's retirement (SERS) pension obligation will be absorbed by each department in their proposed budget. Since the Governor is requiring all Departments to survive with only small increases over last year's appropriated amounts, the increased SERS pension costs will in effect, be paid for by each department using their small appropriations increase to pay for the higher pension obligation.

The state's payment to the school retirement system which should be \$1.77 billion is instead proposed to be \$1.1 billion. To further supplement the PSERS payment, the Governor proposes liquidating all the remaining investments in the Tobacco Settlement Fund and the Health Ventures Investment Account and transferring those proceeds, estimated at \$225 million, to PSERS for the retirement obligation. This would mark the second time that one-time revenues would be used to supplement a growing expenditure of the General Fund that the Governor finds too difficult to provide money for.

The Governor states that a key component of successful pension reform would include offering a defined contribution, 401(k) style retirement plan for future employees. Again this reform will not reduce the current unfunded liability of the pension systems by even one dollar. It does not justify reducing the collars. The Governor lists the need to not "kick the can down the road" by not paying the pension obligation and then proposes kicking that can as hard as he can to balance the next few budgets.

The proposal to halve the pension collars for the immediate budget year is identical to his proposal last year. So no matter what he proposes as reform to the pension systems the savings to him to balance the budget are always exactly the same- curious how that works for him.

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.

These payments which the Governor feels are too high are significantly lower than they would have been without the payment deferral 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 \$46 billion. The money owed to the commonwealth and school district employees for work already done is \$46 billion.

## **EXECUTIVE OFFICES**

The proposed budget for Fiscal Year (FY) 2014-15 includes a total General Fund appropriation of \$178.5 million for the Governor's Executive Offices, representing an increase of only \$5.6 million, or 3%, over FY 2013-14 levels. As a result, the vast majority of line items within the Governor's Executive Offices are roughly level funded over the current fiscal year. Those line items with more significant changes under the Governor's proposal are listed as follows:

- The Pennsylvania Commission on Crime and Delinquency (PCCD) is proposed to receive an additional \$700,000 to ensure that victim services programs receive the full allocation of funding planned from the Justice Reinvestment Initiative. However, after factoring in other reductions, namely non-recurring costs, the Governor's budget only increases the Commission's total state appropriation by \$234,000 in the coming fiscal year, which is discouraging when noting its declining federal support. 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.
- Also as part of the Justice Reinvestment Initiative, the line item dedicated to Violence Prevention Programs is proposed to receive an additional \$2 million in FY 2014-15. This increase will be used to support evidenced based delinquency, violence prevention and intervention programs. However, this line item is also proposed to undergo funding reductions in other areas, and when factored in, the appropriation will only see an increase of \$1.3 million (totaling \$5.864 million).

- An increase of \$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. This increase would raise the total for this appropriation to \$21.445 million in FY 2014-15.
- The Intermediate Punishment Treatment Programs appropriation is proposed to receive an extra \$2 million for a pilot program that will provide pre-trial intensive drug and alcohol treatment services. This additional funding would raise the total for this appropriation by 11% to \$20.167 million in FY 2014-15.
- A new appropriation titled "Child Advocacy Centers" within Executive Offices has been created in the Governor's proposal. This appropriation will provide funding for Child Advocacy Center operational support and expansion. \$2 million in new funding has been proposed for this initiative in FY 2014-15.
- A proposed decrease of \$360,000, or 3%, for the Inspector General's Welfare Fraud appropriation which is the result of a reduction in administrative costs as well as efficiencies achieved by consolidating work process and functions.
- A proposed reduction of \$254,000 for the Human Relations Commission, dropping its total funding to approximately \$9.1 million. The Commission is responsible for identifying, preventing and eliminating illegal discriminatory practices in the commonwealth as defined by the PA Human Relations Act and Fair Educational Opportunities Act. The decrease is derived from a reduction in administrative costs as well as the transfer of the Commission's IT resources to the Commonwealth Technology Services line item.
- A proposed increase of \$411,000 for the Grants to the Arts appropriation, raising its total to \$8.590 million in FY 2014-15. This increase will be utilized to promote, and provide additional support for, arts in the commonwealth.

## **ROW OFFICES**

### **Auditor General**

The Governor's budget for fiscal year (FY) 2014-15 proposes a total state appropriation of \$44.7 million for the Office of the Auditor General, identical to its level of funding in FY 2013-14. As a result, new highlights for line items contained within the Office's itemized budget for FY 2014-15 are few and far between. Those that do exist are listed as follows:

- Funding for the Office’s General Government Operations (GGO) line item is proposed at \$41.3 million, the same as it was in FY 13-14, despite having to account for rising pension obligations and benefits costs. This proposed level of funding falls below the Office’s budget request of \$42.4 million for its GGO in FY 2014-15.
- Similarly, the Governor’s budget also flat funds the Office’s “Information Technology Modernization” line item over the current fiscal year, at \$1.75 million. Instituted in FY 2013-14, this appropriation was created as part of a three year plan for the Office to update and modernize its outdated technology infrastructure. First year funding (FY 2013-14) of \$1.75 million was used to improve the Office’s human resource and finance computer systems, perform system and IT security assessments, and create a refresh cycle to replace outdated hardware and execute software upgrades. The Governor’s proposal to flat fund the line item in the second year (FY 2014-15) falls well short of the Office’s request of \$6.2 million, which is critically needed to continue its technology upgrades. This marks the second time that the Governor has failed to meet the Office’s technology funding request (it requested \$4 million in FY 2013-14). If the Office’s technology funding needs continue to be shortchanged, the total amount needed to complete these updates will only grow in the future.

### **Attorney General**

The proposed budget is \$87,290,000 which represents flat funding from last year. This includes a continuation of \$2,500,000 for the mobile street crimes unit that has been a priority of the Attorney General. There is also an increase to reimburse counties for full time DA’s in the amount of \$222,000.

### **Treasury**

Under the proposed budget the general government of the Treasury Department would increase by \$3.5 million or nearly 11%. The other personnel appropriation, the Board of Finance and Revenue, would receive no increase in funding after being re-worked last year.

Debt service payments are anticipated to increase \$37 million or 3.4%.

## **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 \$295.4 million for the lottery funded PENNCARE appropriation.

An additional \$2.5 million is expected to provide home and community based services to 500 individuals on the OPTIONS waiting list and an additional 204 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 proposed budget reflects a reduction of \$25 million in the funding level for the PACE & PACENET programs to reflect actual need.

### **Senior Centers**

The FY 2014-15 budget reflects a \$0.150 million reduction in 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 Governor's 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 Governor has proposed eliminating these lines in the past, only to have them restored for the final budget.

While those important line items are once again slated for elimination, General Government Operations will see an increase of 9%.

## **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. As a result, states around the country began questioning whether warehousing law breakers for long periods of time has been the best use of taxpayers' dollars. As one of those states, Pennsylvania enacted a series of reforms throughout various state agencies, including the Department of Corrections, as part of the Justice Reinvestment Initiative (JRI) in response to its growing corrections population and spending levels.

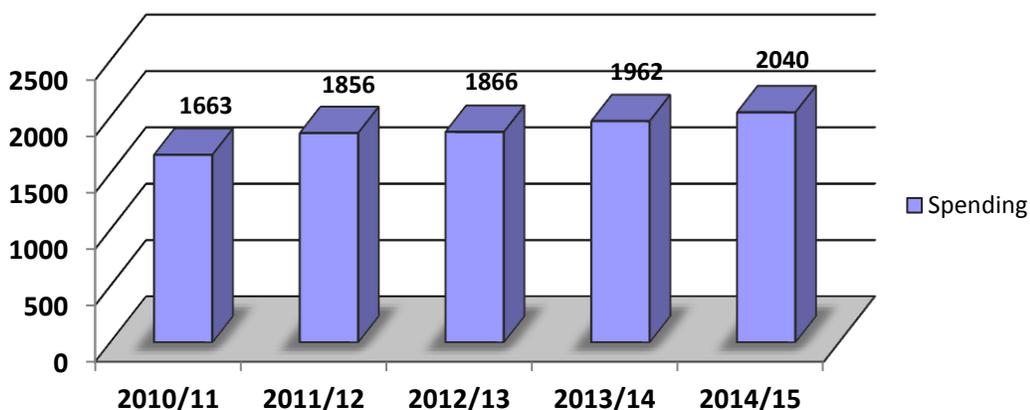
Justice Reinvestment is a data-driven approach designed to reduce inmate populations and generate cost savings that can be reinvested back into strategies that decrease crime and strengthen the safety of our communities. Although initiatives developed through the JRI have already helped to address prison population growth (referenced below) and generate savings for the commonwealth, they have not done so at the speed and pace that many originally anticipated. In light of this, Senate Democrats are now beginning to identify and develop new reforms that can bolster results of the JRI, further helping to reduce our inmate population and generate additional cost savings for the commonwealth.

### **FY 2014/2015 Proposed Budget**

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

In the enacted 2014-2015 budget, state spending for the Department of Corrections (DOC) is increased to \$2.040 billion. When compared to FY 2013-14 funding levels, this represents an increase of \$77.8 million, or 4%.

**Dept. of Corrections General Fund Spending**  
(Dollar amounts in Millions)



According to the latest statistics, the commonwealth is currently operating at approximately 4,500 inmates over capacity with a total offender population that stands at 51,512. Of this population, 49,789 are housed throughout the State’s 26 institutions, while the remaining inmates are housed in Community Correction Centers and other jurisdictions. In 2013, PA’s total offender population grew by only 328 inmates, and while not eliminated entirely, this is well below levels seen prior to enactment of the JRI. In the five years proceeding this period (Dec. 07 to Dec. 12), PA’s total offender population grew on average by 1,031 inmates annually. Similarly, the growth of PA’s state institutional population is also beginning to improve. In 2013, PA’s state institutional population grew by only 1,000 inmates. In the five years preceding this period, notwithstanding 2010 when inmates were shipped out of state, PA’s state institutional population grew by more than 1,900 inmates annually.

For FY 2014-15, the proposed budget contains a proposed increase of \$78.2 million for the commonwealth’s institutional system. Of this increase, \$70.7 million is needed to maintain the institutional system’s current level of operations, or what can primarily be viewed as rising pension and benefit costs of staff and personnel. The remainder of this increase (\$7.5 million) is proposed to be utilized for a new initiative that will provide enhanced treatment for inmates with serious mental illnesses.

In addition to this increase, the Governor also proposes to transfer \$418,000 to the Justice Reinvestment Fund to distribute prior year savings from the Justice Reinvestment Initiative. This is \$375,000 more than was transferred in the current fiscal year, meaning JRI reforms and initiatives are expected to have more success in the coming fiscal year. However, the total proposed transfer of \$418,000 is still below original projections.

**Medical**

The proposed budget recommends a total state appropriation of \$231.1 million for inmate medical care in FY 2014-15, which is roughly \$1.2 million less than the current fiscal year. Factored into this appropriation is:

- An increase of \$8.8 million to continue the current program;
- A \$2.5 million increase for the treatment of inmates with mental illnesses, supplementing the aforementioned initiative;
- A savings of \$2.5 million from the implementation of the Governor's Healthy PA program;
- And \$10 million in savings achieved through the use of pharmaceutical rebates to mitigate the costs of AIDS medication for inmates.

## **BOARD OF PROBATION AND PAROLE**

### **Background**

The primary mission of the Board is to protect the safety of the public through the rehabilitation and supervision of persons on probation or parole, with the ultimate goal of helping these individuals successfully reintegrate into society. 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.

At the end of FY 2014-2015, the Board anticipates approximately 40,190 supervised parolees and probationers, up 1,000 over current year projections, and 2,200 more than there was in FY 2012-13. This gradual increase is an encouraging sign, being that a primary component of the JRI was to divert and move more offenders from prison and place them into other less expensive forms of supervision, such as probation or parole.

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

In the proposed FY 2014-2015 budget, the appropriation for the General Government Operations of the Board of Probation and Parole increased by approximately \$13 million, or 11%, over the current fiscal year. The majority of this increase (\$10.5 million) would be used to continue current programs. The remainder (\$2.5 million) is needed to maintain caseload ratios for a projected increase, as alluded to above, in the parolee population.

Funding for the Sexual Offenders Assessment Board is roughly flat over the current fiscal year. The primary responsibility of this board is to conduct court ordered assessments of convicted sex offenders which help to classify the offender based on the nature of their crime.

The estimated State Supervision Fee Collections for FY 2014-2015 are \$3.806 million, which is an increase of \$56,000 over current year collections.

## DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

The Department of Community and Economic Development's (DCED) fiscal year 2014-2015 General Fund appropriations are proposed to have a 1.9% increase to \$240.967 million. DCED will see a decrease to its General Government Operations of approximately \$2.2 million.

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 48<sup>th</sup> in job growth. In an effort to reverse this trend, funding for *Marketing to Attract Business* was significantly increased for the second consecutive year from \$941,000 to \$3.4 million to \$4.586 million to promote domestic and foreign investment in Pennsylvania, which has done nothing to increase job growth. In addition, *Marketing to Attract Tourists*, a key industry which generates tax revenues each year for state and local governments, is being cut almost in half to \$3.806 million.

The 2014-15 FY budget yet again increases funding to *World Trade PA* to \$7.9 million to promote Pennsylvania exports in key international markets and to attract foreign investments in Pennsylvania. However, *Keystone Communities*, which was established to encourage public-private partnerships and to support local initiatives, was cut to \$10.799 million, a cut of over 4%.

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 budget also eliminates funding for *Early Intervention for Distressed Municipalities* while significantly reducing funding by \$1.8 million after cutting \$5 million in the current FY. Recovery plans have been completed in 27 municipalities, and are being implemented in the 21 currently-distressed municipalities. 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 Authority, which has strategically supported financial and technical services for early stage and emerging technology companies, received no funding, although it has historically received over \$50 million for such key investments. The budget does, however, provide \$100 million in insurance tax credits under *Innovate PA* to fund the Ben Franklin Technology Partners, the Venture Investment Program and the Life Sciences.

The Governor also proposed to eliminate funding for Zoo's, Powdered Metals, Infrastructure and Facilities grants, and Rural leadership training. All programs that strengthen the Commonwealth while he continues to fund misplaced priorities.

The Governor's 2014-2015 FY budget continues the same misplaced priorities as past years and fails to move Pennsylvania in the right direction.

## DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

The Department of Conservation and Natural Resources (DCNR) fell victim to the Governor's budget axe once again in his proposed budget for fiscal year (FY) 2014-15. Total state spending for the Department is proposed to be reduced by roughly \$3 million, or 10%, over the current fiscal year, even though the Department is facing rising pension/benefit obligations of staff and personnel. As a result of this decrease, the proposed level of state funding for the Department in FY 2014-15 would be more than \$50 million (\$53.8 million to be exact), or 67%, below where it stood in FY 2010-11, prior to Governor Corbett taking office. To better illustrate how the Governor's proposal for DCNR compares to its General Fund levels in the current fiscal year, and more importantly, its levels in FY 2010-11, the following line items are listed below:

- State Parks Operations funding is proposed at approximately \$6 million, down \$87,000 over FY 2013-14 (despite increased obligations) and roughly \$39.7 million, or 87%, less than was available to it in FY 2010-11.
- The Governor's proposal of \$2.1 million for State Forest Operations is down \$25,000 from its level in FY 2013-14 (despite increased obligations) and \$9.5 million, or 81%, below its total allocation in FY 2010-11. In addition to facing increased costs in the coming fiscal year, this line item also has the added responsibility of managing pest populations and disease outbreaks in our state forest since the Forest Pest Management appropriation was consolidated into it this past budget. As separate line items in FY 2010-11, funding for both State Forest Operations and Forest Pest Management totaled more than \$13.4 million.
- Funding for the Department's General Government Operations (GGO) is proposed at \$15.6 million in FY 2014-15, down \$614,000 over FY 2013-14 (despite increased obligations) and roughly \$2.7 million, or 15%, less than was available to it in FY 2010-11.
- Last but certainly not least, funding for the Heritage Parks program is proposed to be eliminated entirely. \$2.2 million was restored for the program in FY 2013-14 after being zeroed out in the two previous budgets.

In an effort to offset the appearance and severity of many of the cuts mentioned over the last three years, the Governor has relied heavily on the Oil and Gas Lease Fund, to supplement, or back-fund, line items within the Department. In the coming fiscal year, the Governor continues this practice, proposing to transfer \$117.5 million from the Fund to the Department, representing an increase of \$11 million over the current fiscal year. This transfer of funding will help to supplement operational costs within the Department, including its State Forest and State Parks Operations. In addition to this transfer, the Fund will transfer \$75 million to help balance the General Fund budget and \$35 million to the Marcellus Legacy Fund, which will provide for various conservation measures as part of ACT 13.

The practice of using Oil and Gas Lease Fund monies to help balance the Governor's budget and back-fund the Department's operations is concerning. Not only does it help to legitimize the reduction of state monies within DCNR, but it also sets a precedent for the use of these funds that blur their original intent and purpose. These funds were intended to be reinvested back into conservation/environmental programs, not in other state agencies or DCNR's typical day-to-day operations.

Additionally, if all the transfers referenced above are made, the Fund would only carry a balance of \$31.9 million heading into FY 2015-16. This marks a disturbing trend as the Governor has been spending more than the Fund has been pulling in, causing its once healthy surplus to dwindle (surplus was \$87.6 million in FY 2012-13). In order to support this increased spending, the Governor is now relying on additional revenues (\$75 million) for the Fund from what is described as Non-Surface Impact Leasing. This would allow for the leasing of additional mineral rights on state park and forest lands near existing drilling sites, seemingly overturning the existing moratorium on such activity. Consequently, the fate of the FY 2014-15 budget and a large share of DCNR's funding (one-third of its total budget) would be reliant on additional leasing activity as well as the success of drilling operations on state lands in PA.

In addition to the transfers from the Oil and Gas Lease Fund, the Governor is also seeking \$45 million from the Growing Greener II (GGII) Bond Fund for a new program called "Enhance Penn Woods". Funding within this program would be used by the Department to address the \$1 billion backlog of infrastructure projects within our state parks and forests. This backlog of projects has, not surprisingly, grown over the last several years due to the aforementioned budget cuts imposed within the Department. What's more, the impact that this program could have on the backlog of projects would be far more meaningful had the Department's park and forests operations been properly funded over the last several years.

Projects that will be funded through this new program include new offices and campgrounds at selected parks, expanded public access and the addition of 20,000 acres to the state forest system. The total investment through this program is projected to reach \$200 million over the next two fiscal years when transfers from the GGII Bond Fund are combined with funding from other sources including: Oil and Gas Lease Fund money, Capital Budget money, GGI money, Key 93 money, money from recently passed transportation bill, and Snowmobile/ATV money.

Finally, the Department will continue to receive its traditional allocation from the Key 93 Fund under the Governor's proposal. 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 proposed to receive \$51.3 million from the Fund in FY 2014-15, which represents an increase of \$2.3 million over FY 2013-14.

## THE DEPARTMENT OF EDUCATION

The proposed budget includes no increase in the basic education subsidy. Next year's school district budgets will be difficult to balance, especially with increased pension obligations. The PSERS Board is expected to set 21.31% of payroll as the total employer contribution for 2014-15 for each school district, up 4.4% from the current year's rate. If the Governor's proposal is enacted, the increase would be lowered to 2.2%. Clearly it is time for Pennsylvania to develop and implement a sensible education funding formula that addresses real classroom costs, meets real student needs, and builds successful schools and successful communities.

The Governor is proposing a new \$341 million Ready to Learn Block Grant. This amount includes the existing \$100 million for Accountability Block Grants. Districts would receive level funding for the ABG portion. The additional \$240 million would be provided directly to schools through a new funding formula based upon student count, aid ratio, poverty, and English proficiency. Based on scores on the new Student Performance Profiles, entities would have varying flexibility in use of the funding – higher performing schools would have more choice in how they use the money for things such as early childhood programs, STEM education and supplemental instruction. The use of funds for all schools will be restricted to programs specified in the grant proposal.

The new block grant would include \$1 million for small grants to high performing districts to mentor struggling school districts. The competitive grant fund is intended to encourage the highest-performing schools in the state to help offset the costs of sharing their programs and training with other schools. Schools would be able to compete for grants of up to \$20,000. To be eligible, schools must have earned a 90 or higher on the new School Performance Profiles rating system.

As in the current year, \$9.8 million would be 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.

The budget proposal includes \$10 million for new Hybrid Learning grants to support schools in developing and implementing blended learning strategies which combine traditional and digital learning. It is estimated that 100 schools will receive these grants.

The Governor's Schools of Academic Excellence would receive \$350,000 to fund summer programs at Carnegie Mellon and two additional yet to be determined schools in agricultural sciences, STEM and engineering.

The Special Education appropriation is increased by \$20 million in the Governor's proposal. 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 262,400 in 2014-15. The distribution formula for this \$20 million is yet to be determined, but will be based on the Special Education Commission's recommendations of three cost categories of students.

The General Government Operations appropriation is reduced based on the Governor's proposal for pension savings. In addition, the School Employees' Retirement line increase is \$62.7 million less for 2014-15 due to the proposal to eliminate the Charter School Double Pension Payment – the commonwealth's duplicate retirement contribution to charter and cyber charter schools.

Funding for the Chartered Schools for the Deaf and Blind would remain flat. The Approved Private Schools would receive a slight increase of \$467,000.

Early Childhood Education programs are funded in both PDE and DPW. The budget recommends funding in PDE for the Pre-K Counts program at \$97.3 million, an increase of \$10 million, allowing approximately 1,670 additional pre-school children to access high-quality early learning. Pre-K Counts provides funding for early childhood learning, focusing on at-risk students. In addition, the commonwealth received \$51 million in the federal Race to the Top grant for early learning.

Head Start Supplemental Assistance, which expands pre-K services to eligible children, would receive no increase. The Governor recommends an increase in funding for Early Intervention which provides services and support for children with developmental delays. The funding increase of \$841,000 and savings of \$8.7 million would result in \$9.5 million additional funds and would expand services to 1,500 additional children from ages three to five.

The proposal includes an extension of the moratorium on PLAN CON building projects for next fiscal year. The Department is in the process of surveying schools and doing a facilities study to determine differing needs in light of new hybrid learning models.

There are three line items for Nonpublic Schools. Specifically, Services to Nonpublic Schools, Textbooks and Materials and Transportation for Nonpublic and Charter Schools are all flat funded under the Governor's proposal.

The Teacher Professional Development appropriation is flat funded. The PA Assessment line is increased by \$4.6 million to support existing state and federally mandated tests. The new specialist and principal evaluation tool, currently piloted in 845 schools is to be fully implemented in 2014-15.

The Public Library Subsidy would receive a \$500,000 increase under the Governor's request, and would be distributed on a pro-rata basis. 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 \$3.2 million will be available.

The proposed budget eliminates funding for the Mobile Science Education Program (\$864,000), Career and Technical Education Equipment Grants (\$3 million) and \$8.1 million in Job Training Programs.

## **HIGHER EDUCATION INSTITUTIONS**

The proposed budget for higher education includes flat funding for the state-owned universities, state-related universities -- Penn State and the University of Pittsburgh; Lincoln University and the operating budget for community colleges. It reduces capital funding for community colleges by \$1 million.

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. They have received flat funding ever since.

### **Community Colleges**

The proposed budget includes flat funding for community colleges for operating; capital funding is decreased by \$1 million. 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 State System of Higher Education**

The proposed 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 proposal includes \$14.2 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 would receive \$229.6 million, essentially flat funding, under the Governor's proposal. Penn College of Technology would receive flat funding of \$15.6 million.

**Lincoln University:** The University would receive \$13.2 million – no increase.

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

**University of Pittsburgh:** The University would receive \$136.3 million – no increase.

## **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. The Governor has recommended no increase in state funding of \$344.88 million. Additionally, PHEAA is asked to direct \$85 million from its business earnings to supplement the State Grant Program for a total of \$419.88 million.

Currently the maximum grant amount is \$4,348. With rising tuition amounts and less carry forward monies, the maximum grant will most likely have to be reduced, as will the average state grant amount which is currently \$2,882. The grant amount as a percentage of total educational costs continues to slowly decline – for the current year it is 11.66% and is estimated to be 11.55% for 2014-15.

### **Institutional Assistance Grants**

The Institutional Assistance Grants line, which provides assistance to higher education institutions that do not receive other state funds, is flat funded in the Governor's proposal. Eighty-eight institutions receive this allocation based upon the total number of eligible grant recipients enrolled. It is expected that the 2014-15 per capita grant amount would be \$511.

Funding for the other appropriations in the PHEAA budget are all recommended to be 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

## **Ready to Succeed Scholarships**

The budget proposes a new \$25 million Ready to Succeed Scholarships designed to provide merit based scholarships up to \$2,000 to middle income students to pursue two-year or four-year post-secondary degrees at any Pennsylvania college, university or technical school. Middle income would be defined as family incomes up to \$110,000, and student scores on standardized tests would be used to determine merit. These grants would be available to the recipient through the two or four years to degree completion as long as they maintain a certain minimum grade point average.

## **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 two 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's proposal would increase funding for the program from \$5 million to \$6 million -- funding provided 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 increased to \$12.3 million, \$1.7 million more than was appropriated in FY 2013-14. The appropriation has had a 20 percent decrease over the last 5 years.

Environmental Program Management is slated for an increase of 6.7 percent or \$1.7 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 9.6 percent increase of \$7.3 million which places its funding level back to where it was in the 2003-04 fiscal year.

The Governor does propose General Fund payments of \$2.8 million to the county conservation districts. Last year he tried to eliminate the GF contribution since there was \$2.5 million from the Marcellus Shale impact fee for the districts.

## **DEPARTMENT OF GENERAL SERVICES**

The Department of General Services (DGS) is responsible for the procurement of goods and services; construction of the Commonwealth's buildings and non-highway infrastructure, oversight of the vehicle fleet; management of state property and facilities; and capitol security. DGS is also responsible for the state's real estate leases, the Small Business Procurement Initiative and Small Diverse Business Opportunities Program.

The Governor's proposed Fiscal Year 2014-2015 budget increases DGS' overall budget by \$3 million or 2.6%. DGS' General Government Operations budget is increased by \$2.5 million or 4.3%. The biggest single line item increase is in rental and municipal charges in the amount of \$1.1 million due to increased lease costs. Capitol police operations have also been increased by \$235,000. The Small Business Opportunities Program, which includes the Small Diverse Business Program, received zero appropriation in the Governor's proposed budget.

## **DEPARTMENT OF HEALTH**

### **AIDS Programs**

The enacted budget maintains funding of \$17.436 million for FY 2014-15. 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. Special Pharmaceutical Services and Federal Ryan White funding was transferred from the Department of Public Welfare to the Department of Health in FY 2013-14.

### **Community Health Centers**

The budget provides an additional \$4 million to the Community-Based Health Care Subsidy (CHCS) program as an additional way for the commonwealth to fund community-based health care clinics. These funds will provide grants for four new health care centers and to 36 existing health care entities. These community-based clinics 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 \$4 million is included in the Governor's proposed FY 2014-15 budget in order to provide for an additional 12 hospital residency grants and increase the current loan repayment awards by 70 to recruit and retain health professionals in underserved areas of the state.

### **Cancer Programs**

The enacted budget maintains funding at \$2.5 million in FY 2014-15 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 eliminates all funding for 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 is raised through other funding services.

### **Other Health Programs**

Funding for Lupus, Regional Poison Control Centers, Trauma Prevention, Epilepsy Support Services and Tourette Syndrome has been eliminated in the Governor's proposed budget for FY 2014-15.

The Governor's budget would also decrease funding for Adult Cystic Fibrosis & Other Respiratory Illnesses by \$0.300 million in FY 2014-15.

Maternal and Child Health funding will see a reduction of \$0.115 million in FY 2014-15.

## **DEPARTMENT OF INSURANCE**

Over the past year, Governor Corbett has continued his request for a waiver for the Affordable Care Act requirement that all children at or below 138% of Federal Poverty level were eligible for Medical Assistance benefits, even though the request has repeatedly been denied. In January, Governor Corbett reached a compromise with the U.S. Department of Human Services that would allow parents the option to transition their children to MA at renewal or remain on CHIP until the end of the 2015 calendar year. While Medical Assistance benefits for children are far more robust, the Governor continues to tout CHIP as the superior health insurance program.

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

In the FY 2014-15 budget, \$9.032 million is added to provide health insurance to an additional 10,419 children.

A reduction of \$3.456 million is proposed as a result of approximately 5,000 children transferring to the Medicaid program as a result of the federally mandated Affordable Care Act, as mentioned above.

### **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.

### **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. It is still unclear if the Administration will opt to run a state exchange in order to implement the Governor's proposed Healthy PA plan. However, no funding has been provided in FY 2014-15 for such an initiative.

## **JUDICIARY**

The Governor has recommended an appropriation for Judiciary in the amount of \$317.432 million in the budget for FY 2014-15. This represents level funding for the Judiciary from the appropriation of \$317.432 million for FY 2013-14.

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           \$1.118 million
- County Court Reimbursement       \$34.407 million
- Senior Judge Reimbursement       \$1.375 million

| <b>Judicial Department</b>                | <b>FY 2014-15 Appropriation</b> |
|---|---------------------------------|
| Supreme Court*                            | \$106,223,000                   |
| 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.

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 and are reflective of the December 31, 2014 sunset:

| <b>Account</b>     | <b>Fee</b> | <b>FY 2014-15 Estimated Revenue</b> |
|--------------------|------------|-------------------------------------|
| JCPS               | \$10.25    | \$18.377M                           |
| CJEA—DA's          | \$2.25     | \$ 5.575M                           |
| ATJ—Legal Services | \$1.00     | \$ 1.793M                           |
| Total              | \$13.50    | \$25.745M                           |

## JOB UPDATE

Pennsylvania's seasonally adjusted unemployment rate declined to 6.9% in December 2013, down 0.4% from the previous month, and the lowest the rate has been in nearly five years. Over the month, unemployment rolls decreased by roughly 26,500 individuals, with the total number of unemployed standing at approximately 443,000. While the decline in unemployment may, on the surface, appear to be good news, it is largely a result PA's labor force shrinking by almost 15,000, which is not an encouraging sign for the economy as these individuals are no longer looking for work. Year-over-year, PA's labor force has shrunk by nearly 100,000 individuals.

Additionally, the commonwealth's unemployment rate remained above the national rate in December, the tenth time (month) this has occurred this year. What's more, PA's unemployment rate has either been higher than or equal to the national rate over the last 17 months of record, or nearly half of Governor Corbett's term of office thus far. Prior to this period, Pennsylvania was successful in keeping its monthly unemployment rate below the national rate for more than four years. Furthermore, the decline in the commonwealth's unemployment rate continues to lag behind the pace of progress occurring nationally. Since January 2011, the national unemployment rate has declined by 2.4%. PA's rate, on the other hand, has declined by only 1.1% over the same time frame. This means that the commonwealth's unemployment rate is improving at less than half of the pace of improvement seen nationally since January 2011.

The news for the commonwealth on the employment front in December 2013 was even worse, as it lost 11,400 jobs over the previous month. As a result of this decline, PA finished the year off adding only 19,000 jobs, or an increase of merely .3%. This total marks a third straight decline for year-end job growth in PA, meaning December to December job growth has declined every year under the leadership of Governor Corbett. It also ranks PA a disappointing 48<sup>th</sup> out of all 50 states for percentage new employment growth in 2013. Even worse, PA currently ranks dead last among all of its neighboring states for percentage employment growth since January 2011, and fairs no better when compared to the ten largest states in the nation for percentage employment growth since January 2011, also coming in dead last.

In the face of all these indicators, Governor Corbett still believes he has performed well in the area of job creation, touting that 138,000 private sector jobs have been created since coming into office. While that may sound impressive, this total also ranks PA dead last among all of its surrounding states for percentage private sector employment growth since January 2011. Additionally, his claim of creating 138,000 private sector jobs does not factor in public sector job losses he has caused. PA's public sector employment has shrunk by 42,000 jobs, or roughly 6%, since January 2011. When these losses are factored into his private sector job creation claims, his total number shrinks from 138,000 to 96,000. This means employment has only grown by 1.7% since Corbett came into office in January 2011, well below national employment growth of 4.9% seen over the same time frame. Had PA simply kept pace with national growth over this period, it would have created 278,000 jobs, or 182,000 more than the 96,000 actually created.

### 2013 Job Growth Ranking

| Rank      | State               | Total Emp.<br>Dec. 2012 | Total Emp.<br>Dec. 2013 | Net Emp.<br>Growth | Net %<br>Change |
|-----------|---------------------|-------------------------|-------------------------|--------------------|-----------------|
| 45        | Ohio                | 5,175                   | 5,201                   | 25.60              | 0.49%           |
| 46        | New Mexico          | 807                     | 810                     | 3.20               | 0.40%           |
| 47        | Kentucky            | 1,837                   | 1,843                   | 6.10               | 0.33%           |
| <b>48</b> | <b>Pennsylvania</b> | <b>5,743</b>            | <b>5,762</b>            | <b>19.00</b>       | <b>0.33%</b>    |
| 49        | New Jersey          | 3,932                   | 3,942                   | 10.10              | 0.26%           |
| 50        | Alaska              | 335                     | 333                     | (2.30)             | -0.69%          |

### Job Growth Since 2011

| Rank     | State               | Total Emp.<br>Jan. 2011 | Total Emp.<br>Dec. 2013 | Net Emp.<br>Growth | Net %<br>Change |
|----------|---------------------|-------------------------|-------------------------|--------------------|-----------------|
| 1        | New York            | 8,620                   | 8,944                   | 323.70             | 3.76%           |
| 2        | Maryland            | 2,532                   | 2,625                   | 93.60              | 3.70%           |
| 3        | West Virginia       | 748                     | 774                     | 25.90              | 3.46%           |
| 4        | Delaware            | 418                     | 431                     | 12.70              | 3.04%           |
| 5        | New Jersey          | 3,835                   | 3,942                   | 107.80             | 2.81%           |
| 6        | Ohio                | 5,062                   | 5,201                   | 138.70             | 2.74%           |
| <b>7</b> | <b>Pennsylvania</b> | <b>5,665</b>            | <b>5,762</b>            | <b>96.30</b>       | <b>1.70%</b>    |

### Private Job Growth Since 2011

| Rank     | State               | Priv. Emp.<br>Jan. 2011 | Priv. Emp.<br>Dec. 2013 | Net Emp.<br>Growth | Net %<br>Change |
|----------|---------------------|-------------------------|-------------------------|--------------------|-----------------|
| 1        | New York            | 7,131                   | 7,504                   | 372.40             | 5.22%           |
| 2        | Maryland            | 2,028                   | 2,119                   | 91.30              | 4.50%           |
| 3        | Ohio                | 4,290                   | 4,461                   | 170.50             | 3.97%           |
| 4        | Delaware            | 354                     | 367                     | 13.10              | 3.70%           |
| 5        | West Virginia       | 597                     | 618                     | 21.10              | 3.53%           |
| 6        | New Jersey          | 3,213                   | 3,314                   | 101.00             | 3.14%           |
| <b>7</b> | <b>Pennsylvania</b> | <b>4,912</b>            | <b>5,050</b>            | <b>138.30</b>      | <b>2.82%</b>    |

## LABOR & INDUSTRY

Despite rising pension and benefit obligations (averaging 8% across all agencies), the Governor's proposed budget roughly level funds General Fund spending within the Department of Labor and Industry in the coming fiscal year. Total General Fund spending within the Department is proposed at \$72.3 million, just \$230,000 less than its level in FY 2013-14. As a result, most of the Department's line items would see little-to-no funding changes over the current fiscal year. The few line items within the Department with notable adjustments are listed as follows:

- A proposed increase of \$1 million for the Transfer to the Vocational Rehabilitation Fund line item, which will be dedicated to a new on-the-job training initiative for young persons with disabilities (ages 18-25). Funding within this appropriation is traditionally used to draw down matching federal dollars for the Office of Vocational Rehabilitation (OVR). OVR provides rehabilitation services through a network of vendors to help persons with disabilities prepare for, obtain, or maintain employment. The total proposed state transfer of \$41.4 million is anticipated to draw down \$141 million in federal funds, bringing the total for the fund in FY 2014-15 to \$182 million.
- Funding for the New Choices/New Options line item is proposed to be eliminated in FY 2014-15. 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 2013-14, despite the Governor's previous attempts to eliminate it.
- A decrease of \$200,000 for the Industry Partnership initiative. 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. The reduction proposed for this initiative would lower its total appropriation to just over \$1.6 million for FY 2014-15.

While the Governor's budget does little to affect funding areas within the Department over the current fiscal year, its proposed General Fund allocation is still nearly \$12 million, or 14%, less than it was in FY 2010-11. As a result, critical programs within the Department geared towards assisting the state's businesses, workforce and unemployed have been cut dramatically, or eliminated entirely, along the way. Even worse is the fact that this has occurred while Washington has been experiencing its own problems, and has drastically cut federal dollars for the Department as well (from \$915 million in FY 2010-11 to \$432 million for FY 2014-15). Consequently, PA's job creation efforts continue to suffer. As previously mentioned in this report, PA currently ranks 48<sup>th</sup> out of all 50 states in total job creation, has a jobs deficit of 182,000 when compared to national growth, and its unemployment rate has consistently been higher than the national average. What's more, the Governor has yet to even offer a clear and defined jobs plan of his own to pull PA out of this rut, and has blatantly ignored attempts by others do so, including those by Senate Democrats (PA Works).

## **DEPARTMENT OF TRANSPORTATION**

### **Highway Construction and Maintenance**

In the Governor's Fiscal Year 2014-2015 proposed budget, recognizes the additional funding from our transit funding proposal, an additional \$102 million is to be used on Pennsylvania highways for repair, resurfacing, and reconstruction. 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 Governor's FY 2014-15 budget increases funding for Highway and Safety Improvements by almost \$500 million to total \$2.5 billion. PennDot has the responsibility of executing and developing the most critical deficiencies on state highways, including safety and mobility issues.

### **Mass Transit**

The Governor's FY 2014-2015 proposed budget also recognizes the historic investment the General Assembly made in transportation with record amount of money being driven out to Mass Transit. The Governor proposes, as directed by legislation that an additional \$60 million or \$97 million are being driven out through the multi-modal fund. Additionally, the Public Transportation Trust Fund will drive out over \$200 million additional dollars for a total of \$1.180 billion.

These additional funds in both Mass Transit and Highway will allow the commonwealth to attempt to start to address its severely lacking and crumbling infrastructure.

Although the rail freight and intermodal line is eliminated in the Governor's General Fund budget some of the funding is shifted to being funded by the unconventional gas well fund, and the multi-modal fund. The end result will be an overall reduction in the amount allocated, but the exact amount cannot be determined as a portion of the multi-modal funds are allocated at the discretion of the Secretary.

## **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 \$210 million from the General Fund; and it receives \$624 million from the Motor License Fund. However, in the 2014-15 FY, the Governor is proposing an increase to \$217 million in the General Fund and \$666 million from the Motor License Fund.

The Governor is recommending that \$13.7 million be provided to fund four new State Police cadet classes that will train a total of 350 new troopers. The cadet class is needed in order to maintain a complement level close to the current fiscal year.

Of note in the Governor's 2014-15 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. This was also slated for elimination in 2013-14, but restored in the final product.

The Governor is requesting a \$2.4 million increase in the Gaming Enforcement line item over the current year budget. 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 \$485,000 increase in Liquor Control Enforcement.

### **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 \$1.05 billion in Fiscal Year 2014-15 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 \$37,990,000.

### **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 2014-15, table game revenues are expected to generate \$94.7 million in revenue.

### **PROPERTY TAX RELIEF FUND**

The Property Tax Relief Fund was created in Act 71 of 2004 to receive revenue from taxes imposed on slot machine gaming in the Commonwealth for purposes of providing school district property tax relief. Act 1 of Special Session 1 of 2006, the Taxpayer Relief Act, provides the distribution method for driving out property tax relief funds.

In FY 14-15, it is estimated that approximately \$776.8 million will be available for distribution from the Property Tax Relief Fund. This amount includes approximately \$611.6 million for general school district property tax relief pursuant to the Taxpayer Relief Act and an additional \$160.2 million for expanded senior citizen property tax and rent rebate reductions and relief for seniors in cities with high tax burdens. The funds also include \$5.0 million for emergency management volunteer company grants authorized to be paid out of the Property Tax Relief Reserve Fund pursuant to Act 78 of 2012.

### **PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY**

The Emergency Management Agency (PEMA) is set to receive a proposed \$11 million in state funding from the General Fund for FY 2014-2015. 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 \$130 million for Domestic Preparedness-First Responders and \$21 million for Civil Preparedness. Civil Preparedness is level funded, while Domestic Preparedness-First Responders is seeing a cut of \$30 million in federal funds.

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 \$20 million, which is an increase of \$2.5 million. PEMA is set to receive \$117 million from the Wireless E-911 Emergency Services Fund, a decrease of \$3 million.

The Office of the State Fire Commissioner is slated for a small cut, but is still funded at just over \$2 million.

The PEMA budget eliminates some of the state funding for disaster relief that was needed in previous years as a federal match. The \$3.1 million for Summer 2011 and \$5 million from Summer 2013 are able to be eliminated from the current proposal. The Hazard Mitigation line is also eliminated; it was previously funded at \$3 million. All of these appropriations were for non-recurring state matches for federally funded projects.

PEMA's General Fund budget total, including federal funds, is \$232 million. This is due largely to the loss of \$112 million in federal funding.

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

Overall, the Department of Military and Veterans Affairs will see a cut of about 1.3% from current year levels. There is an increase of \$550,000 in General Government Operations.

The funding for the Civil Air Patrol is slated to be eliminated again. This was added back to the 2013-14 budget after being eliminated for several years. The Governor's proposal also eliminates the line for Veterans Assistance, but those programs will continue to see funding through the \$1 million going to the Veterans Trust Fund.

There are also cuts to the lines for the Transfer to Education Assistance Program Fund, Armory/Readiness Centers Maintenance and Repair, and Supplemental Life Insurance Premiums due to reduced program requirements. Due to a reduction in administrative costs, there is a cut of \$690,000 for the Veterans Homes line item. Finally there is a \$350,000 cut in Veterans Outreach Services.

## **PUBLIC UTILITY COMMISSION**

The Governor has recommended an appropriation from restricted revenues for the Public Utility Commission in a total amount of \$63 million in the budget for Fiscal Year 2014-2015.

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:

| <b>General Government Operations</b> | <b>2012-13 Actual</b> | <b>2012-13 Available</b> | <b>2013-14 Budget</b> |
|--------------------------------------|-----------------------|--------------------------|-----------------------|
|                                      | <b>65,455</b>         | <b>67,997</b>            | <b>68,356</b>         |

(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 2011-12. 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.

|                              | <b>2012-13 Actual</b> | <b>2013-14 Available</b> | <b>2014-15 Budget</b> |
|------------------------------|-----------------------|--------------------------|-----------------------|
| General Fund Total           | 65,455                | 67,997                   | 68,356                |
| Marcellus Legacy Fund        | 119,025               | 84,383                   | 104,094               |
| Unconventional Gas Well Fund | 387,682               | 206,098                  | 206,099               |
| <b>Total All funds</b>       | <b>572,162</b>        | <b>358,478</b>           | <b>378,549</b>        |

(Amounts in thousands)

## **DEPARTMENT OF REVENUE**

The Department's general government appropriation would receive an increase of \$3.2 million under the Governor's proposed budget. The Governor is anticipating continuing the enhanced revenue collection unit at a cost of \$10 million. 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 \$9 million, which is \$2 million less than the level in the current budget. This is the final 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.

This budget proposes level funding for the Department of State for FY 2014-15 for a total of \$14.2 million from the General Fund. General Government Operations will see a slight increase. Voter Registration and Education is cut by over \$2 million. Most of this money had been spent on the misleading Voter ID ad campaign. Despite the upcoming gubernatorial election, Voting of Citizens in Military Service is level-funded. County Election Expenses, however, will see a small increase.

Lobbying Disclosure and the Statewide Uniform Registry of Electors are both reduced from current year funding.

The proposal also recommends several small increases in funding for licensing boards that will be absorbed by the fees that are charged to fund those restricted accounts.

Finally, there is a new line item for the Department. The Governor's proposal includes \$5.3 million in funding to comply with publication requirements for three proposed Constitutional Amendments.

## **DEPARTMENT OF PUBLIC WELFARE**

On September 16, 2013, after months of saying no to expanding Medical Assistance as part of the Affordable Care Act, Governor Corbett released his Healthy PA plan. Healthy PA would take up the federal option to expand Medicaid coverage to individuals who would be newly eligible by scaling back benefits, adding a new cost sharing structure and implementing a work search requirement. Federal dollars would be used to support premium assistance to purchase commercial product on the insurance exchange.

Six hearings and two webinars were held throughout the state in December and January to allow for public comment on the plan. It is expected that the Administration will take information and make some adjustments to the Healthy PA plan, such as in the area of mental health and drug and alcohol benefits as well as allowing FQHCs to participate as providers. The 1115 waiver application is expected to be submitted by the end of February.

The need for the Governor to expand eligibility for Medicaid outside of the current HealthChoices model delays getting any of the 500,000 newly eligible Pennsylvanians health insurance before 2015. In addition to the delay in getting families covered, Pennsylvania misses an opportunity to draw down billions of federal funds and realize the much needed \$400 million in revenue and savings for the Commonwealth in Fiscal Year (FY) 2014-2015 as reported in the Independent Fiscal Office Study.

Full implementation of the Affordable Care Act is estimated to cost \$40 million in administrative costs, including approximately 700 additional personnel and information technology upgrades. The administration estimates an additional \$219 million in new program costs, offset by \$125.4 million in savings from the Governor’s proposed expansion of Medicaid under the Healthy PA plan.

The FY 2013-2014 budget included a cost sharing requirement for families with children enrolled in the Medicaid Special Needs Program, often referred to as “loophole” kids. Families 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 was set to begin at an annual income of \$100,000 instead of the current 200% of FPL. To date, the Department has not taken any steps to implement this initiative.

**Medical Assistance**

During FY 2014-15, Medical Assistance will provide health care coverage and long term care services to more than 2.2 million Pennsylvanians, a 3.9% increase from the current year.

| <b>“Big 5” Medical Assistance Appropriations</b> |                    |                    |                   |
|--|--------------------|--------------------|-------------------|
|  | <b>FY 13/14</b>    | <b>FY 14/15</b>    | <b>Difference</b> |
| Outpatient                                       | \$ 313,463         | \$ 418,956         | \$105,493         |
| Inpatient  | \$ 125,948         | \$ 140,659         | \$ 14,711         |
| Capitation                                       | \$3,928,961        | \$4,062,303        | \$133,342         |
| LTC (all)  | \$ 1,121,634       | \$ 1,031,001       | (\$ 90,633)       |
| Medicare Part D                                  | \$ 529,728         | \$ 538,720         | \$ 8,992          |
| <b>Total</b>                                     | <b>\$6,019,734</b> | <b>\$6,191,639</b> | <b>\$171,905</b>  |

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

|                         | <b>% of Caseload</b> | <b>% of Dollars</b> |
|-------------------------|----------------------|---------------------|
| Elderly                 | 17%                  | 33%                 |
| Disabled                | 24%                  | 45%                 |
| Children & Families     | 56%                  | 20%                 |
| Adults without children | 3%                   | 2%                  |

The Federal Medical Assistance Participation (FMAP) rate was decreased from 53.52% to 51.82% for FY 2014-15 and results in an increase of \$340 million in State funds needed.

### **Human Services Funding**

County Child Welfare Needs Based Budget funding will increase by \$28.4 million in FY 2014-15. The funding for the Child Care Services & Assistance, Nurse Family Partnership, Legal Services and Breast Cancer Screening programs will be maintained at the FY 2013-14 funding level. There is an additional \$15 million in federal funds provided in the Child Care Services program to eliminate the waiting list.

Domestic Violence and Rape Crisis funding will see an increase of \$2.310 million to provide additional services in FY 2014-15.

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

In FY 2013-14, a 20 county pilot program was expanded to an additional 10 counties. The Block Grant funding method 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. Participation in the block grant program continues to be on a voluntary basis. No additional expansion of this program is proposed for FY 2014-15.

### **Mental Health and Intellectual Disabilities**

To address the increasing need for the Intellectual Disabilities Community Waiver program, an additional \$22.329 million was added to assist 400 individuals on the waiting list, 700 young adults graduating from special education system and 50 individuals currently residing in state centers.

In FY 2014-15, an additional \$4.72 million was added to provide home and community based services for 90 individuals currently residing in state hospitals and 100 additional adults with autism spectrum disorders.

### **Long Term Living**

In FY 2014-15, Services to Persons with Disabilities funding will increase by \$15.325 million to provide home and community based services to an additional 1,203 additional Pennsylvanians.

In addition, 396 additional people will be able to access home and community based services through the Attendant Care program due to a funding increase of \$2.699 million in FY 2014-15.

An additional \$11.577 million in Lottery Funding will be provided in Home and Community Based services to allow an additional 1,764 older Pennsylvanians to be served. The LIFE program will be able to serve an additional 800 individuals in FY 2014-15 with the additional \$9.444 million proposed in the Governor's FY 2014-15 budget.

The Governor's proposed budget includes a proposal to save over \$73 million by participating in the Balancing Incentive Program, part of the Affordable Care Act. The Balancing Incentive Program authorizes grants to States to increase access to non-institutional long-term services and supports (LTSS) available from October 1, 2011 to September 2015.

The Balancing Incentive Program will help Pennsylvania transform their long-term care systems by:

- Lowering costs through improved systems performance & efficiency
- Creating tools to help consumers with care planning & assessment
- Improving quality measurement & oversight

The Balancing Incentive Program increases the Federal Matching Assistance Percentage (FMAP) to States that make structural reforms to increase nursing home diversions and access to non-institutional LTSS. The enhanced matching payments are tied to the percentage of a State's LTSS spending, with lower FMAP increases going to States that need to make fewer reforms.