

TABLE OF CONTENTS

GENERAL FUND	3
EXECUTIVE OFFICES	6
ROW OFFICES	7
Auditor General.....	7
Attorney General	8
Treasury.....	8
DEPARTMENT OF AGING	8
LOTTERY FUND.....	10
DEPARTMENT OF AGRICULTURE.....	10
CORRECTIONS.....	11
BOARD OF PROBATION AND PAROLE	12
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT	13
DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES	15
THE DEPARTMENT OF EDUCATION.....	17
HIGHER EDUCATION INSTITUTIONS	19
Community Colleges.....	19
Pennsylvania State System of Higher Education.....	20
State Related Universities	20
PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY	20
PENSIONS.....	21
DEPARTMENT OF ENVIRONMENTAL PROTECTION	22
STATE GAMING FUND	23
PROPERTY TAX RELIEF FUND	23
DEPARTMENT OF GENERAL SERVICES.....	24
DEPARTMENT OF HEALTH	24
INSURANCE DEPARTMENT	27
JUDICIARY	29
LABOR & INDUSTRY.....	30
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS	32
DEPARTMENT OF TRANSPORTATION	33
Mass Transit.....	33
Motor License Fund.....	34

STATE POLICE	34
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY	35
DEPARTMENT OF REVENUE	36
DEPARTMENT OF STATE	36
DEPARTMENT OF PUBLIC WELFARE	36

GENERAL FUND

This budget is an election year budget. It is ill-conceived and leaves the citizens of Pennsylvania waiting for some sign of leadership. Instead the citizens received a lackadaisical effort that can best be described as phoned-in. The list of crucial issues not addressed in this budget is long:

1. Structural deficit – The state’s revenues and expenditures are miss-matched. Each year, the required expense to run the government, to provide core government functions, increases faster than the existing tax revenue. The solution contained in this budget is to use nearly \$1.5 billion in one-time gimmicks to mask this problem for one more year.
2. Pennsylvania ranks 48 out of 50 states in job creation. The solution in this budget is further cuts to proven job creation programs in DCED.
3. Local property taxes continue to increase in an attempt to replace lost state school aid. The solution within this budget is to reduce the Governor’s already inadequate election year attempt to replace some of the shortfall that occurred in the Governor’s first budget.
4. No fixing last year’s mistakes that resulted in \$50 million less in bank shares tax than was anticipated. That shortfall will be repeated this year as well. The Department of Revenue will issue another clarification to tax payers which will tell them that in spite of how the law is written, they should send the Commonwealth additional tax revenue they do not really owe.
5. A fair Marcellus shale extraction tax will not be implemented. Pennsylvania will remain the only state in the nation that has natural gas drilling that doesn’t levy an extraction tax on the natural resources being removed from the state.
6. No expansion of Medicaid to provide health insurance to half-a-million working Pennsylvanians, of which 23,000 are veterans. Instead the Governor will cling to an unlikely waiver request that is an ideological punishment to people who could be insured for no cost to the state.
7. Business tax cuts will continue for our largest, richest businesses while no funds are available for the most at risk populations.

2013-14 Tax Revenues:

Tax collections ended the fiscal year in June at a level lower than the taxes collected in fiscal year (FY) 2012-13. While the Governor expected \$468 million more in revenue this year, it turned out to be \$50 million less. What was expected to be 3.4% growth turned out to be a .3% decline. It is very rare that tax revenues actually decline from one fiscal year to the next. The national economy did experience a very slow first quarter, but that does not explain what happened to tax collections over the entire fiscal year.

Every major tax source was below estimate: Corporate tax collections were \$80 million below estimate, Sales tax was \$111 million below and the personal income tax was a whopping \$310 million below estimate.

2014-15 Tax Revenues:

The Governor planned an election year budget back in February with revenue growth of \$1.4 billion or nearly 5%. Such optimistic growth would allow him to undo some of the damage to state programs that he has inflicted since becoming Governor. Such growth in tax revenues was always unlikely, but as the FY 2013-14 revenue picture collapsed, 5% growth became untenable.

This enacted budget relies on 3.5% growth from the lower 2013-14 actual revenue amount. Expecting 3.5% revenue growth after suffering a .3% revenue decrease is wishful thinking. Even with this hopeful revenue growth, tax revenues are \$1.2 billion lower than the Governor built his budget on over the last two fiscal years.

The budget also will 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. The tax will fully phase 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 licensed premises. The first revenue collections were 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. No revenue was collected at all in the 2013-14 fiscal year and only \$1 million was expected by the IFO for FY 2014-15.

To further enhance revenues, the enacted budget includes escheat changes and transfers from the Oil and Gas Lease fund worth \$245 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 five to three years. For the first time under Governor Corbett, \$95 million of Oil and Gas Lease Fund money would simply be transferred to the General Fund to balance the budget.

General Fund 2014-15

Below is a list of the one-time revenues and gimmicks that are utilized to balance this election year budget.

Transfer or Gimmick	Amount to General Fund (in Millions)
Liquidating Tobacco Settlement Investments - \$ used to fund Pensions	\$225
Drilling in Parks Oil and Gas Lease Fund Transfers	\$95
Philadelphia Casino License Payment	\$75
Unclaimed Property –one time monies	\$150
Additional Transfers out of Tobacco Settlement Fund	\$63
Changing DPW Cycle Payments	\$393
Using Lottery Fund monies for Home and Community Based Services	\$130
Enhanced Revenue Collections	\$40
Additional Bank Shares Tax	\$40
Transfer Local Law Enforcement Grant	\$8
Eliminate Gross Receipts Tax to AFIG	\$6.2
Manville Account Balance	\$2.4
Transfer Small Business First Fund	\$100
Transfer Machinery & Equip Loan	\$100
Transfer Volunteer Company Loan	\$30
Healthy PA Revenues	\$125
Total	\$1,582.8

While these gimmicks will supposedly balance this year’s budget, they, by their very nature, will not be available in FY 2015-16. As costs increase for FY 2015-16, these one-time fixes will result in a deficit of \$2 billion for the next Governor to inherit.

Some of the one-time funding sources are unlikely to be available at the expected levels or even at any level. The machinery and equipment fund is expected to only have a balance of \$90 million to transfer, not \$100 million. The waiver from the federal government to allow for Healthy PA is unlikely to happen so no revenue will come from that. No additional money is likely from the bank shares tax; instead a further \$36 million is likely to be refunded back to the taxpayer. The amount of one-time revenue that is likely to be no-time revenue is \$290 million out of the \$1.5 billion.

If the IFO is correct about tax revenues as they were this year another \$225 million of added tax revenue may also never be collected so on the day this budget is being sent to the Governor a deficit of \$500 million is already likely.

Expenditures:

Expenditures total approximately 29.090 billion which is an increase of \$700 million or 2.46% over the amount spent in FY 2013-14. The Governor proposed in February spending \$321 million more than the amount contained in the final budget. Many of the individual line items changed as well between the Governor's proposal and the final budget. The final budget did not trim the pension collars as the Governor had wished so some of the line items with personnel increased slightly to cover higher pension costs.

But like any budget that was slapped together as haphazardly as this one was, the expenditures are not well thought out. Investments in the future are removed to cut total expenditures to an arbitrary target. The remainder of this report will detail the expenditures in HB 2328 and contrast those expenditures with how a carefully constructed budget would have spent the funds.

EXECUTIVE OFFICES

The enacted budget for Fiscal Year (FY) 2014-15 includes a total General Fund appropriation of \$174.2 million for the Governor's Executive Offices, representing a decrease of only \$242,000 over its FY 2013-14 level. 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 within the enacted budget are listed as follows:

- Funding for the Technology Innovation Investment Fund line item within Executive Office's has been consolidated into its appropriation for Commonwealth Technology Services. Funding for the Technology Innovation Investment Fund and Commonwealth Technology Services totaled \$54.6 million in FY 2013-14, when combined. A total of \$54.7 million has been set aside for Commonwealth Technology Services in FY 2014-15 to reflect this consolidation. The Commonwealth Technology Services appropriation provides information technology services to state agencies and administers the data center outsourcing contract.
- The Pennsylvania Commission on Crime and Delinquency (PCCD) will receive a decrease of roughly \$1.4 million in FY 2014-15, lowering its total appropriation to just over \$4 million. However, this decrease can be attributed to a \$1.5 million non-recurring project within the PCCD in FY 2013-14 that no longer requires funding in FY 2014-15. 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 new appropriation titled "Child Advocacy Centers" within Executive Offices has been created as was proposed by the Governor in his budget address. This appropriation will provide funding for Child Advocacy Center operational support and expansion. A total of \$2.250 million in new funding has been set aside for this initiative in FY 2014-15.
- An 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 enacted budget for fiscal year (FY) 2014-15 contains 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 set at \$41.3 million, the same as it was in FY 2013-14, despite having to account for rising pension obligations and benefits costs. This level of funding falls below the Office's budget request of \$42.4 million for its GGO in FY 2014-15.

- Similarly, the enacted 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, create a refresh cycle to replace outdated hardware and execute software upgrades. The \$1.75 million enacted for this appropriation in 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 and Republican majorities have 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 of time and money needed to complete these updates will only grow in the future.

Attorney General

The enacted budget provides \$92.3 million to run the activities of the Attorney General. This is a slight increase over the \$87.3 million that was originally proposed by the Governor back in February. Most of this increase can be attributed to higher pension obligations of staff and personnel. However, the Mobile Street Crimes Unit and the Child Predator Interceptor Unit will receive less funding by \$20,000 and \$250,000 respectively. The Mobile Street Crimes Unit has been a priority of the Attorney General.

Treasury

Under the enacted budget, the General Government Operations of the Treasury Department will increase by \$3.8 million or 11% over last year's level. The other personnel appropriation, the Board of Finance and Revenue, received no increase in funding after being re-worked last year.

Debt service payments increased by \$30 million or 3%. The Governor's proposed debt service number in February had been \$7.5 million higher.

DEPARTMENT OF AGING

The **Lottery Fund** provides funding for programs under the Department of Aging, including its operations. The enacted fiscal year (FY) 2014-15 budget includes \$483.385 million in Lottery funds for the Department of Aging.

The **PENNCARE appropriation** funds a network of in-home and community-based services for older Pennsylvanians geared at delaying or avoiding institutionalization. Services are coordinated at the local level through the 52 Area Agencies on Aging (AAAs). Programs and services range from meals and transportation to attendant care in-home personal care services. The enacted budget includes \$295.37 million for PENNCARE. This includes an additional \$20.206 million in Lottery funds to address waiting lists in **Attendant Care** and **OPTIONS** programs as proposed in the Executive Budget.

The **Pre-Admission Assessment** program provides for assessments of individuals applying for nursing facility care within the commonwealth. The process includes education for consumers who may be better served in a home and community based setting. The enacted budget includes \$10.735 million in Lottery funds for this program. This is level-funded compared to FY 2013-14.

The state **Caregiver Support** program provides support services for caregivers who are caring for an older, functionally dependent relative. Components of the program include benefits counseling, caregiver training and education, and some financial reimbursement for expenses incurred. Financial assistance is determined based on a sliding scale depending on need, income and expenditures. The enacted budget includes \$12.103 million in Lottery funds for this program. This is level-funded compared to FY 2013-14.

The **Alzheimer's Outreach** appropriation provides training, education and outreach to families, medical professionals, human service providers and the general public on Alzheimer's disease. The enacted budget includes \$250,000 in Lottery funds for this program. This is level-funded compared to FY 2013-14.

Competitive grants are provided to **Senior Centers** for repairs, renovations and other needs.

The **PACE, PACENET** and **PACE plus Medicare** are Pennsylvania's prescription assistance programs for older adults, offering low-cost prescription medication to qualified residents, age 65 and older. Funds are transferred from the Lottery Fund and the Tobacco Settlement Fund to the **Pharmaceutical Assistance Fund**. The enacted budget transfers \$155 million from the Lottery Fund to the Pharmaceutical Assistance Fund, \$10 million less than the Governor's proposed budget. This is \$35 million less than FY 2013-14 due to savings from changes to the Medicare Part D program under the Affordable Care Act. The enacted budget includes \$2 million in Lottery funds for this program. This is \$150,000 less than in FY 2013-14. The enacted budget package also eliminates the Tobacco Settlement Fund transfer, citing Medicare Part D savings and allowing those funds to be redirected to offset General Fund expenditures in the Department of Public Welfare.

LOTTERY FUND

Pennsylvania's Lottery is recognized as one of the best operated lotteries in the nation, experiencing increasing sales every year. Proceeds fund critical programs for the commonwealth's seniors.

The FY 2013-14 ending balance in the Lottery Fund is projected to reach \$198.578 million, nearly \$10 million more than the Governor's February assumptions. Between FY 2012-13 and FY 2013-14, lottery sales grew by 1.3%. The FY 2014-15 budget anticipates sales growth of 7.8%. While it is clear that this projection assumes that the State Lottery Law is amended to permanently reduce the PA Lottery's "minimum rate of return" requirement to 25%, it is unclear whether any other revenue enhancements are calculated into the sales projections.

Total expenditures in the Lottery Fund for FY 2014-15 stand at \$2.062 billion, an increase of \$233.6 million (12.8%) over FY 2013-14. The FY 2014-15 revised ending balance is anticipated to be \$75.866 million. The FY 2014-15 budget assumes nearly \$281 million for the Property Tax Rent Rebate program and over \$180 million for senior transportation programs.

Of note, the enacted budget appropriates nearly \$985 million for programs in the Department of Aging (\$483 million) and Department of Public Welfare (\$502 million). This is \$156.43 million more than in FY 2013-14 and represents the shifting of General Fund expenditures off-line into the Lottery Fund.

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.

General Government Operations is increased by \$2.5 million, mostly due to increased personnel-related costs.

The Governor's proposed budget called for significant changes to the Department of Agriculture's funding lines. The FY 2014-15 budget level funds the Agricultural Excellence, Agricultural Research and Promotion, PA Preferred Program Trademark Licensing, Hardwoods Research, Livestock Show and Open Dairy Show, and Food Marketing and Research lines after the Governor proposed eliminating them in February.

The line for Agricultural Promotion, Education and Exports, was also proposed to be eliminated by the Governor, but saw a slight increase over FY 2013-14 in the final agreement.

CORRECTIONS

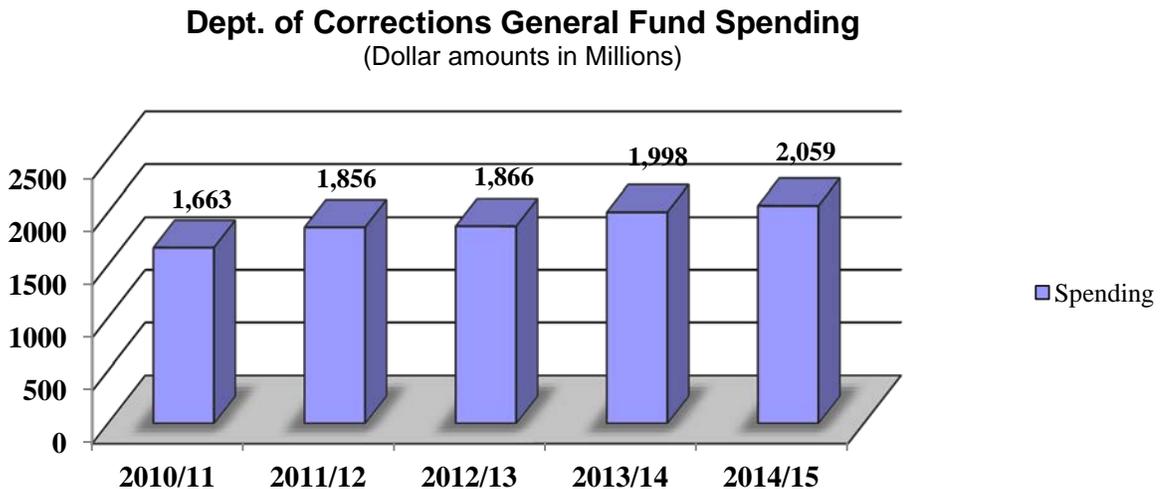
Background

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 Budget

In the enacted 2014-2015 budget, state spending for the Department of Corrections (DOC) is increased to \$2.059 billion. When compared to FY 2013-14 funding levels, this represents an increase of \$61.2 million, or 3%.



State Correctional Institutions

According to the latest statistics, the commonwealth is currently operating at approximately 4,000 inmates over capacity with a total offender population that stands at 51,087. Of this population, 49,266 are housed throughout the State's 26 institutions, while the remaining inmates are housed in Community Correction Centers and other jurisdictions. Year-over-year (May 2013 – May 2014), PA's total offender population is down by 280 inmates and the decline of the state institutional population is even greater, dropping by 397 inmates.

Although it appears the JRI is finally beginning to make some headway in reducing the size of PA's inmate population, the cost of the state's institutional system nonetheless continues to grow. For FY 2014-15, the enacted budget contains an increase of \$65.4 million for the commonwealth's institutional system, which is primarily needed to address rising pension and benefit costs of staff and personnel. What's more, prior year savings from the JRI that can be transferred for use in other programs only total \$418,000, well below numbers originally envisioned.

Medical

The enacted budget includes a total state appropriation of \$229.1 million for inmate medical care in FY 2014-15, which is roughly \$5.9 million less than the current fiscal year. Factored into this appropriation are additional funds to continue the current program, additional funding for the treatment of inmates with mental illnesses, anticipated savings achieved through the Governor's Healthy PA initiative, and additional 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 enacted FY 2014-2015 budget, the appropriation for the General Government Operations of the Board of Probation and Parole is increased to \$134.6 million, up approximately \$14.7 million, or 12%, over the current fiscal year. Roughly \$2.5 million of this increase is needed for extra agents to maintain caseload ratios for a projected increase, as alluded to above, in the parolee population. The remainder of this increase is needed to continue programs.

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 (DCED) fiscal year 2014-2015 General Fund appropriation totals \$204.5 million which is the lowest level since Governor Corbett took office. DCED will see a small increase to its General Government Operations of \$762,000 or 5.5%.

The enacted budget makes deep cuts beyond even Governor Corbett's budget's inadequate funding levels. Key economic development programs that support Pennsylvania's economic competitiveness in everything from foreign direct investment to Brownfield redevelopment will suffer cuts of between 20% and 51%. After ranking 8th in the nation in job growth just a few years ago, Pennsylvania currently ranks 48th in job growth. Further, Pennsylvania's real gross domestic product grew just 0.7% in 2013 a result which lagged behind our neighbor states of West Virginia, Ohio and New Jersey. With the enacted budget's deep cuts in job creation and community revitalization, the Commonwealth's long term competitiveness will continue to be undermined and there is little hope of reversing these worrying trends.

Funding for *Marketing to Attract Business* lost \$1.4 million, a 42% cut from last year's levels which will inhibit Pennsylvania's ability to promote domestic and foreign investment in Pennsylvania. *Marketing to Attract Tourists* which benefits a key industry generating crucial tax revenues each year for state and local governments was reduced \$171,000 from last year's \$7.4 million level.

The enacted budget cuts funding for *World Trade PA* by nearly 20% from \$7.3 million to \$5.8 million. At a time when "reshoring" opportunities are growing, DCED's efforts to attract foreign direct investment to spur jobs could be hampered. In addition, the cuts could affect DCED's network of trade offices in key international markets and hamper their ability to promote Pennsylvania exports. Deeper cuts still were made to *Pennsylvania First* which is DCED's comprehensive funding tool to help finance business attraction and site development. This program saw cuts of 46% from last year's level of \$37.8 million to just \$20 million. This will greatly reduce the number of large job creation projects DCED will be able to compete for. *Keystone Communities*, DCED's flexible community revitalization funding which supports locally developed projects for everything from the Main Street and Elm Street programs to affordable housing and anchor building redevelopment, took the steepest cut in the DCED budget at 51% losing \$5.8 million in resources for these high impact community projects.

The Ben Franklin Technology Development Authority, which has strategically supported 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 as technology commercialization partnerships with universities and venture capital and angel investment growth.

The Partnerships for Regional Economic Performance (PREP) which supports regional coordination and business development efforts of the Industrial Resource Centers, Small Business Development Centers, Local Development Districts and Economic Development Corporations also stayed flat at \$11.8 million which is still about 25% below its historic funding level. Thousands of Pennsylvania businesses rely on the strategic advice, business planning and finance packaging that these organizations provide and unfortunately the job growth this assistance could deliver will be not be optimized.

The budget also cuts \$3 million, more than 43%, from the *Transfer to Municipalities Financial Recovery Revolving Fund (Act 47)* at a time when the list of distressed communities is growing. The city of Shamokin is the latest municipality to enter Act 47 in June of 2014. Recovery plans have been completed in 27 municipalities, and are being implemented in the 21 currently-distressed municipalities. With a success rate of just 25%, comprehensive and new reforms of Act 47 must be enacted to adequately address the institutional and systemic financial problems facing municipalities statewide. Real reform must include improving Pennsylvania's antiquated and unfair tax structure, incentives for business investment and economic development, rebuilding the tax base, and investing in education and workforce development.

Finally, in order for the enacted budget to balance, it requires \$200 million of transfers from the Small Business First Fund and the Machinery and Equipment Loan Fund. Working in partnership with banks, these Funds provide the loan proceeds necessary to stimulate growth of the state's small businesses as well as attract and retain businesses making large machinery and equipment investments. These transfers will empty the coffers of the Funds meaning that few if any loans to manufacturers, small neighborhood-based business, growing high technology enterprises and agricultural producers can be made next fiscal year. When the loan volume in previous years has been tens of millions of dollars, the impact of shutting down these programs is hard to fathom.

In contrast to the risky cuts and devastating transfers inflicted on the DCED budget at the very time our Pennsylvania economy is lagging behind, the Senate Democrat's plan would have not needed the transfers and provided at least \$38.1 million more to these and other key economic development programs.

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

As has occurred over the last three budgets, the Governor and Republican majorities have once again reduced the state allocation for the Department of Conservation and Natural Resources (DCNR) in the enacted agreement for FY 2014-15 in order to free up funding for other areas of the budget. Total state funding for the Department is reduced to just over \$15 million for FY 2014-2015, a cut of roughly \$15 million, or by an additional 50%, over its level in FY 2013-14. The cut in state funding for the Department is even more dramatic when looking back to FY 2010-11 when its allocation totaled \$80.9 million (a cut of \$65.9 million).

As a result of the reductions imposed by the Governor and Republican majorities, the Department's General Government Operations (GGO), State Parks Operations and State Forests Operations contain only a fraction of state General Fund monies they once had. For example, state funding for the Department's GGO is reduced to \$5.8 million for FY 2014-15, down \$10.4 million from its level in FY 2013-14, and \$12.5 million less than it received in FY 2010-11. Similarly, the state allocations for the Department's State Parks Operations and State Forests Operations are reduced to \$2.2 million and \$1 million, respectively. State funding for Parks Operations is down \$3.8 million over FY 2013-14 and by \$43.5 million over FY 2010-11, while state funding for Forests Operations is down by \$1.1 million over FY 2013-14 and by \$12.4 million over FY 2010-11.

In an effort to offset the appearance and severity of the previously mentioned reductions in state funding over the past four years, the Governor and Republican majorities have increasingly relied upon the Oil and Gas Lease Fund to supplement, or back-fund, line items within the department. The final agreement for FY 2014-15 continues this practice, transferring a total of \$122.5 million from the Fund to the Department, representing an increase of \$16 million, or 15% over the current fiscal year. This transfer of funding will help to supplement operational costs within the Department, including its GGO, State Forest and State Parks Operations. For FY 2014-15, 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 this transfer, the Fund will transfer \$35 million to the Marcellus Legacy Fund for various conservation measures as part of ACT 13 and \$95 million to help balance the General Fund budget. The latter transfer of \$95 million is projected to be generated from what is being described as Non-Surface Impact Leasing. While the details of this initiative remain vague (including how the plan will generate the needed \$95 million), it is premised upon allowing DCNR to lease additional mineral rights under state park and forest lands for natural gas development that can be accessed from existing drilling sites, so long as there are no new surface impacts (it is also unclear what qualifies as new "surface impacts"). In order to move forward with this new initiative, Governor Corbett issued a new executive order effectively overriding an existing moratorium prohibiting any additional leasing of state forest land for natural gas development.

The practice of using Oil and Gas Lease Fund monies to help balance the 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.

In addition to the transfers from the Oil and Gas Lease Fund, \$45 million from the Growing Greener II (GGII) Bond Fund will also be utilized by the Department in FY 2014-15 as part of a two year initiative of the Governor's known as "Enhance Penn Woods". Started in FY 2013-14, this initiative was undertaken by DCNR to begin addressing 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, in-part, to the aforementioned budget cuts imposed within the Department.

The Department estimates that 200 projects will be covered as part of this two-year initiative including; new offices and visitor centers at selected parks, campground improvement projects, dam repair, repairs to fire towers in state forest, state park drinking water and waste water system projects, 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 \$211 million by the end of FY 2014-15 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 a recently passed transportation bill, and Snowmobile/ATV money.

Finally, the Department is also expected to receive its traditional allocation from the Key 93 Fund in the enacted budget for FY 2014-15. These funds are used by the Department for state park and forest lands rehabilitation, repairs and upgrades of facilities and for land acquisition. If unchanged from the Governor's budget proposal earlier this year, DCNR will 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

Classroom funding in the 2014-15 budget is increased by a mere \$101.45 million over the prior year, and is still close to \$695 million below classroom funding in 2010-11. The budget continues the elimination of classroom funding for programs such as: Dual Enrollment, Reimbursement of Charter School Expenditures to school districts, Tutoring programs, Science: It's Elementary and School Improvement Grants.

The budget includes no increase in the basic education subsidy. Additional funding is provided to 2 districts through the Basic Education Formula Enhancement line. The line traditionally includes \$2.5 million for Duquesne's tuition payments to the two surrounding school districts which Duquesne students attend. The additional \$1.45 million in funding will go to the Allentown SD.

The Subsidy line includes \$2.8 million for the Financial Recovery Transitional Loan Program which provides loans to school districts in financial recovery status that have approved a financial recovery plan. Loans are free from interest and are repayable based on a predetermined schedule, and are to be used to implement provisions of the financial recovery plan.

School district budgets will be difficult to balance, especially with increased health care costs and 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. 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. A study commission has been authorized to look at this issue with their recommendations due next June.

The budget includes a new \$200 million Ready to Learn Block Grant, much scaled back from the Governor's proposal of \$341 million. Districts would receive level funding for the Accountability Block Grant portion. The additional \$100 million would be provided directly to schools through a new funding formula based upon student count, aid ratio, poverty, and English proficiency. Districts would submit a plan to the department for approval on their proposal on how they would use the money. Eligible uses include: early childhood programs, literacy programs, hybrid learning models, STEM education and supplemental instruction. The use of funds for all schools will be restricted to programs specified in the grant proposal.

The Special Education appropriation is increased by \$20 million. 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 pending passage of implementing legislation, but will be based on the Special Education Commission's recommendations of three cost categories of students.

The General Government Operations appropriation is increased presumably for higher pension costs. In addition, \$50,000 is allocated for a national veteran's education program. The School Employees' Retirement line, while increased over 2013-14, also assumes savings by eliminating the state's retirement reimbursement payment to charter schools in the upcoming fiscal year, netting an estimated savings of \$80 million.

Funding for the Chartered Schools for the Deaf and Blind will receive a slight increase to pay for their increased pension costs. Funding for Approved Private Schools is reduced by \$3 million because a number of schools have been returning money each year. Recently enacted legislation allows any unspent funds to be allocated among the APS's.

Early Childhood Education programs are funded in both PDE and DPW. The budget funds 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, is flat funded. Early Intervention, which provides services and support for children with developmental delays, will receive \$9.5 million in additional funds and will expand services to 1,500 additional children from ages 3 to 5.

The budget includes an additional \$10 million for PLAN CON building projects. This \$10 million will do little to resolve the current backlog in school construction projects. The Department recently indicated that \$105 million was needed to move “G” level projects into the reimbursement “H” level. The Department is 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.

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 will not receive any increase. The Governor’s budget recommendation included a \$500,000 increase. 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 final budget increases funding for the Mobile Science Education Program for total funding of \$1.864 million; restores the \$3 million for Career and Technical Education Equipment Grants which the Governor proposed to eliminate; and increases funding for Job Training Programs for a total level of \$10.5 million for various programs.

HIGHER EDUCATION INSTITUTIONS

Funding to colleges and universities, including state-related universities, PASSHE, Thaddeus Stevens College, private schools that receive state funding and the Institutional Assistance Grant program from PHEAA, is virtually flat funded from the 2013-14 fiscal year. Operating funds for Community Colleges is increased and Penn College of Technology will receive an increase in its funding.

Community Colleges

The budget includes a \$3.5 million increase for community colleges for their operating line. The increase will cover the new Rural Regional Community College in Northwest Pennsylvania. Funding for capital projects will remain at the 2013-14 level. Funding for Regional Community College Services would receive \$2.4 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 budget for higher education includes flat funding of \$412.8 million 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 \$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 will receive \$260.3 million - no increase; Pennsylvania College of Technology would receive an increase of \$2 million for a total of \$17.6 million.

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

Temple University: The University will receive \$139.9 million – no increase.

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

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 and is level funded with state dollars equaling \$344.88 million. Additionally, PHEAA will 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 and is estimated to be 11.55% for 2014-15.

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 2014-15 per capita grant amount will be \$558.

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

Ready to Succeed Scholarships

The Governor proposed a new middle income scholarship program “Ready to Succeed” 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. These grants would be available to the recipient through the two or four years until degree completion, as long as they maintain a certain minimum grade point average. While the Governor had proposed \$25 million for this program, the final budget includes \$5 million.

Targeted Industry Cluster Scholarship Program

The Targeted Industry Cluster Certification Scholarship Program provides grants to students enrolling in targeted industry certification programs that are less than 2 years. Grants to students seeking skills/trade certification in programs of study that train individuals for areas of immediate workforce need (this would include union apprenticeship programs) will be made. Students in programs that are less than 24 months are currently not eligible for financial aid through PHEAA and most other federal programs. The budget increases funding for the program from \$5 million to \$6 million, funded from PHEAA business earnings.

PENSIONS

The enacted budget did not reduce the required contribution to the two pension funds by reducing the collars as the Governor proposed. As was done in last year’s budget small amounts were added to many of the personnel lines throughout the budget to provide for increased pension costs.

The state's payment to the school retirement system should be \$1.525 billion. It is instead \$1.1578 billion due to some one time funding that was found to reduce the Commonwealth's share of the pension obligation. First the Governor proposed, and the General Assembly went along with, transferring the remaining investments in the Tobacco Settlement Fund and the Health Ventures Investment Account to PSERS for the retirement obligation. This investment is valued by the Governor's office at \$225 million, although that amount is disputed as its true value. A savings of \$76 million from ending the charter school double dip further reduces the payment. There are excess funds from last year's appropriation which are about \$68 million. Those reductions lower this year's contribution to the \$1.1578 billion contained in this year's budget. These savings are non-recurring and will make next year's increase that much larger. This would mark the second time that one-time revenues have been used to supplement a growing expenditure of the General Fund that the Governor finds too difficult to provide money for.

There were no Legislative changes in the pension laws in spite of a great amount of conversation on the issue.

DEPARTMENT OF ENVIRONMENTAL PROTECTION

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

The general government of DEP is increased to \$12.4 million, \$1.9 million more than was appropriated in FY 2013-14. The amount is slightly higher than the Governor's proposed amount to pay for higher pension costs. The appropriation has had a 20 percent decrease over the last 5 years.

Environmental Program Management is slated for an increase of 8.7 percent or \$2.3 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 10.8 percent increase of \$8.2 million which places its funding level back to where it was in the 2004-05 fiscal year.

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

Sewage facilities planning grants are also increased from \$200,000 last year to \$700,000 in this budget. The amount for the Delaware River Basin Commission is reduced by \$500,000 from \$934,000 to \$434,000.

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 enacted 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

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 2014-15, 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.

DEPARTMENT OF GENERAL SERVICES

The Governor's proposed Fiscal Year 2014-2015 budget increases the Department of General Services' (DGS) overall budget by almost \$9 million or 7.5%. DGS' General Government Operations budget is increased by \$3.2 million or 5.4%. The biggest single line item increase is in rental and municipal charges in the amount of \$6.1 million or 27%, which the department contends is primarily due to increased lease costs. Capitol police operations have also been increased in this year's budget by \$397,000, while the excess insurance coverage is increased by \$112,000. The department's budget, however, fails to provide for any increase in the Small Diverse Business Program, which creates opportunities for minority and women owned businesses.

DEPARTMENT OF HEALTH

The **Department of Health** works with providers and consumers to assess, analyze and report on health threats; assure the quality and availability of health care services; support health care research; and promote healthy behavior. These activities fall into five program areas: health support services, health research, preventive health, health treatment services, and drug and alcohol prevention and treatment.

The Fiscal Code includes allocation language relating to many appropriations in the Department of Health.

Health Support Services

The program area of **Health Support Services** includes funding for the administrative and technical systems that support disease prevention and treatment. Also included in this program are quality assurance activities and operation of state laboratory facilities. Appropriations funded under Health Support Services include: General Government Operations, Quality Assurance, and State Laboratory operations.

The enacted budget largely funds these appropriations at levels slightly higher than 2013-14, largely reflecting increased pension and benefit obligations.

Health Research

The program area of **Health Research** includes funding for the data collection of vital statistics, research programs addressing health disparities, and research grants awarded through the Commonwealth Universal Research Enhancement (CURE) program, which was established under the Tobacco Settlement Act, Act 77 of 2001. State general fund appropriations funded under Health Research include: Vital Statistics, Diabetes Programs, Regional Cancer Institutes, and Biotechnology Research.

The enacted budget **restores the cuts** proposed by Gov. Corbett. Funding for Biotechnology Research increases by \$600,000 and allocations are delineated in the 2014-15 Budget Implementation section in the Fiscal Code.

Preventive Health

The department also provides programs in the area of **Preventive Health**. Activities include the oversight of the federal Women, Infants, and Children (WIC) program; other children's programs such as immunizations, child lead poisoning, and school health; and other health promotion and disease and injury prevention programs. This program area also includes funding for state health care centers and qualifying local health departments.

State general fund appropriations funded under Preventive Health include: Chronic Care Management, State Health Care Centers, Sexually Transmitted Disease Screening and Treatment, Primary Health Care Practitioner, Community Based Health Care Subsidy, Newborn Screening, Cancer Screening Services, AIDS programs and Special Pharmaceutical Services, School District Health Services, Local Health Department funding, Maternal and Child Health, Tuberculosis Screening and Treatment and Epilepsy Support.

Governor's Healthy PA Initiatives

Gov. Corbett proposed an additional \$4 million each for the **Primary Health Care Practitioner** and **Community-Based Health Care Subsidy** programs. The funds for Primary Health Care Practitioner were to be targeted to additional hospital residency grants and loan repayment awards. The funds for Community-Based Health Care Subsidy were to be targeted for additional grant awards and increased awards for current grantees.

The enacted budget only includes an additional \$1 million for the Primary Health Care Practitioner program and only an additional \$2 million for Community-Based Health Care Subsidy programs.

Cancer Programs

In 2011-12, funding for Cancer Control Programs, Expanded Cervical Cancer Screening and Breast Cancer Screening was combined into a single appropriation, Cancer Screening Services. The department supports cancer prevention, research, screening, testing and some treatment services for eligible populations. The enacted budget provides level funding with 2013-14.

Other Preventive Health Programs

The enacted budget provides level funding for **STD Screening and Treatment, local health departments, school district health services and Tuberculosis Screening and Treatment**. A slight decrease in state funding under **Maternal and Child Health** reflects increased utilization of federal funding. The enacted budget increases the appropriation for **Newborn Screening** by \$150,000 and earmarks those additional funds in the 2014-15 Budget Implementation section in the Fiscal Code. The enacted budget restores funding cut by Gov. Corbett for **Epilepsy Support Services**.

AIDS Programs and Special Pharmaceutical Services

The purpose of the **AIDS Program** is to develop and implement a multi-dimensional, coordinated strategy to prevent and change high-risk behaviors and provide resources for sustaining behavior and avoiding infection with the HIV virus. Services include community outreach, public awareness, education and intervention projects and support for HIV regional planning coalitions. Services also include the care and case management for infected persons. Many services are provided through the State Health Care Centers. Funding also supports HIV prevention services through grants with six county and four municipal health departments. The **Special Pharmaceutical Services - AIDS** component was transferred from DPW in 2012-13 and provides funding to cover the cost of drugs for people with AIDS who have limited income and are not eligible for coverage under the Medical Assistance program.

The enacted budget combines the AIDS Programs and Special Pharmaceutical appropriations, as presented in the governor's proposal, and **provides level funding** with 2013-14.

Health Treatment Services

Under **Health Treatment Services**, the department provides coordination of a variety of specialized inpatient and outpatient medical services for Pennsylvanians. The department also pays for these services in cases where all other available resources, including Medical Assistance and the Children's Health Insurance Program (CHIP) have been used.

Appropriations funded under Health Treatment Services include: Renal Dialysis treatment, Services to Children with Special Needs, Adult Cystic Fibrosis and other chronic respiratory illnesses, Cooley's Anemia, Hemophilia, Lupus, Sickle Cell, Regional Poison Control Centers, Trauma Programs Coordination, Tourette Syndrome and Amyotrophic Lateral Sclerosis Support Services.

The enacted budget largely provides for level funding with 2013-14, including a **restoration of the cuts** proposed by Gov. Corbett. The enacted budget includes an additional \$35,000 for Trauma Programs Coordination over 2013-14.

INSURANCE DEPARTMENT

The Pennsylvania Insurance Department **regulates the insurance industry and aims to protect consumers in the state**. The department works to: provide consumer service and outreach; eliminate insurance insolvency and fraud; provide access to affordable health insurance coverage; and make insurance pricing more transparent in all lines of business.

The Insurance Department collects fees and fines related to insurance industry regulation, some of which are deposited into the General Fund and others are redirected to the **Insurance Regulation and Oversight Fund**. The enacted budget includes \$22.757 million through that special fund to be used for department **general government operations** - - an increase of \$427,000 (1.9%).

CHIP

The Children's Health Insurance Program (CHIP) provides health care to children of low-income families who earn too much to qualify for Medicaid benefits, but not enough to purchase private insurance. Depending upon family income, children (up to age 19) receive either free or subsidized health insurance under CHIP.

Funding for the program is shared between the state and federal government, with the federal government providing federal State Children's Health Insurance Program (SCHIP) block grant funds to match state spending. Also, in the subsidized portion of the program, participating families contribute a portion of the monthly premium calculated on a sliding scale, based on income.

Pennsylvania receives federal matching dollars for every state dollar spent on enrollees with household incomes under 300 percent of the federal poverty level. For federal fiscal year 2015, the department is assuming a federal match of 66.27 cents. Beginning in October 2015, the Affordable Care Act (ACA) provides for an enhanced CHIP federal match of an additional 23 cents per state dollar spent. Under current statute, the enhanced match will continue through Sept. 30, 2019.

In addition to the annual General Fund appropriation, state funds also include a dedicated stream of cigarette tax revenue fixed at \$30.73 million annually per statute (Section 1296 of Tax Reform Code). Generally, CHIP utilizes the General Fund appropriation and federal dollars first, prior to using the dedicated cigarette tax revenue. This has created surpluses within the restricted account during some fiscal years which could then be used in future budgets.

Under the ACA, children ages 6-19 with household incomes 100-133% of the federal poverty level are now eligible for traditional Medicaid. This represents a small number of children enrolled in CHIP that will be moved into the Medicaid program. Note that the interim final rule (IFR) published March 23, 2012 provides that a state may claim the enhanced SCHIP match for those children currently in the state's CHIP moving to the Medicaid benefit (instead of the lower traditional Medicaid federal match). These children, under an agreement between the commonwealth and federal government, will have the ability to stay on CHIP through the end of the calendar year before moving to Medical Assistance.

2014-15 Budget

In 2013-14, nearly \$3 million in state and federal funds were allocated to improving marketing and outreach for CHIP. As a result, Gov. Corbett anticipated an average monthly enrollment of 200,140, an increase of 9,330 children over the previous fiscal year. As of April 2014, CHIP enrollment stood at 189,823, over 10,317 children less than the governor's 2013-14 enrollment goals.

For 2014-15, Gov. Corbett once again hoped to increase average monthly enrollment to 203,093 in the new fiscal year and provided for additional funding based on these caseload assumptions. The enacted budget does not increase funding, instead level funding the program at 2013-14 levels. Due to the lower than anticipated average monthly enrollment in 2013-14, a recalculation of anticipated caseloads and costs for 2014-15 indicates level funding should sufficiently fund current enrollees and anticipated growth in the program.

The enacted 2014-15 budget also assumes the transition of children ages 6-19 with household incomes 100-133% of the federal poverty level from CHIP coverage to traditional Medicaid.

JUDICIARY

The appropriation for Judiciary is \$317.432 million for FY 2014-15. This represents level funding for the Judiciary from the appropriation of \$317 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

Judicial Department	FY 2014-15 Appropriation
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.

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.

Extension and Increase of Surcharges per Section 1795. 1-E. Surcharges Fiscal Code, HB 278(2014) p. 53.

The fee listed under 42 Pa.C.S. §3733.1(a)(1) is amended through the Fiscal Code HB 278(2014). The surcharge is increased by \$10.00 for a total surcharge of \$20.25 with a sunset of December 31, 2017.

The increased fee is reflected below:

- \$20.25 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, 2017 sunset:

Account	Fee	FY 2014-15 Estimated Revenue
JCPS	\$20.25	\$39.9M
CJEA—DA's	\$2.25	\$5.57M
ATJ—Legal Services	\$2.00	\$4.95M
Total	\$24.50	\$50.41M

***This number reflects a surcharge increase effective July 1, 2014 yielding 7 months of useable revenues during the fiscal year.**

LABOR & INDUSTRY

There are relatively few changes contained within the enacted fiscal year (FY) 2014-15 budget for the Department of Labor and Industry. Total state funding for the Department is set at \$71.6 million, down only \$1 million, or 1.4%, from its level in FY 2013-14. As a result, most of the Department's itemized appropriations will see little-to-no funding changes over the current fiscal year.

Although relatively unchanged over the prior fiscal year, total state funding for the Department in FY 2014-15 will now be more than \$12 million, or nearly 15%, less than it was in FY 2010-11. As a result of this shortsighted approach by the Governor and Republican majorities over the last four years, 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. In fact, the Governor has even gone so far as to cut more funding from his Keystone Works job training initiative within the Department (one of its last remaining state funded job training programs), reducing it to \$100,000 for FY 2014-15, down from its level of \$1 million in FY 2013-14 and from \$2.5 million in FY 2012-13.

Even worse is the fact that all of these cuts have 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 an estimated \$432 million for FY 2014-15). Consequently, PA's job creation efforts continue to suffer. As mentioned later in this report, PA trails all of its neighbors in new percentage job growth since January 2011 (when Governor Corbett took office), ranks 48th out of all states in new percentage job growth since January 2011, has a jobs deficit of 199,000 when compared to national growth, and its labor force is currently shrinking in size. Despite these startling statistics, the Governor and Republican majorities have continually cut funding for the Department, a Department with an extremely integral role in job training and creation efforts in the state, rather than investing in it. 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 to do so, including those by Senate Democrats (PA Works).

Jobs Update

Pennsylvania's seasonally adjusted unemployment rate declined to 5.6% in May 2014, down 0.1% from the previous month, marking the lowest the rate has been since September 2008. Over the month, unemployment rolls decreased by roughly 5,400 individuals, with the total number of unemployed standing at 362,868. Despite this decline, progress on PA's unemployment front continues to lag behind the pace of improvement occurring nationally. Since January 2011, the national unemployment rate has declined by 2.8%. PA's rate, on the other hand, has only declined by 2.5% over the same time frame. Additionally, PA's labor force shrunk by nearly 12,000 individuals over the previous month, which is one of the leading factors behind the decline in its unemployment rate in May 2014. This decline in the commonwealth's labor force is not an encouraging sign for its economy as these individuals are no longer looking for work. Conversely, the national labor force experienced positive growth over this same time frame, increasing by roughly 200,000 individuals from April 2014 to May 2014.

On the employment front, the commonwealth netted an additional 24,700 jobs over the previous month, with total employment standing at 5,794,900 in May 2014. Despite this monthly increase, total employment in the commonwealth still remains below its December 2007 level, otherwise known as the official start of the recession. On the other hand, the national economy has recovered all the jobs lost since the official start of the recession and has even surpassed its December 2007 employment level by 113,000 new jobs. What's more, year-over-year employment growth in the commonwealth remains sub-par, as evidenced by its standing in the 2014 year-over-year percentage job creation survey. With only 62,400 new jobs added since May 2013, PA continues to rank behind a majority of states in the country for percentage year-over-year employment gains, coming in 33rd out of all 50 states (as compared to 10th in 2010). PA's ranking becomes even worse when looking back to January 2011 (when Governor Corbett took office), coming in 48th out of all 50 states for new percentage employment growth, and dead last among its neighbors and the ten largest states in the country.

Despite these troubling indicators, Governor Corbett still believes he has performed well in the area of job creation, touting that 178,000 private sector jobs have been created since coming into office. While that may sound impressive, this total ranks PA behind a majority of its surrounding states for percentage private sector employment growth since January 2011. Additionally, the Governor's claim of creating 178,000 private sector jobs does not factor in public sector job losses he has caused. PA's public sector employment has shrunk by 48,000 jobs, or roughly 6%, since January 2011. When these losses are factored into his private sector job creation claims, his total number shrinks from 178,000 jobs created to 130,000 jobs created. This means employment has only grown by 2.3% since Corbett came into office in January 2011, well below national employment growth of 5.8% seen over the same time frame. Had PA simply kept pace with national growth over this period, it would have created 329,000 jobs, or 199,000 more jobs than the 130,000 actually created.

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

Overall, the Department of Military and Veterans Affairs will see a cut of slightly less than \$3 million in FY 2014-15. While cuts are spread out across the Department, the vast majority is a decrease of 26% in the transfer to the Educational Assistance Program Fund.

The lines for Armory Maintenance and Repair and Supplemental Life Insurance Premiums are decreased slightly and there is no transfer to the Veterans' Trust Fund in this year's General Fund budget. Veterans Outreach services was increased by \$500,000 over 2013-14 and the Civil Air Patrol was level funded after being slated for elimination by the Governor.

The following line items were level funded:

- Burial Detail Honor Guard- \$99,000
- American Battle Monuments- \$50,000
- Special State Duty- \$35,000
- Education of Veterans Children- \$101,000
- Blind Veterans Pension- \$222,000
- Paralyzed Veterans Pension- \$2,131,000
- National Guard Pension- \$5,000
- Disabled American Veterans Transportation- \$336,000

DEPARTMENT OF TRANSPORTATION

With the passage of Act 89 of 2013, the General Fund portion of the Department of Transportation budget has been limited, with more funding now coming from the Motor License Fund and other restricted accounts. The Highway and Bridge funding will be driven out through two capital projects bills- HB 2244 and SB 1384. The General Fund portion of PennDOT's budget did see the elimination of the line for Photo ID Cards. This is due to the Governor's decision to discontinue the court battle over the ill-considered Voter ID law.

Highway Construction and Maintenance

In the Fiscal Year 2014-2015 budget, utilizing 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 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 2014-2015 budget also recognizes the historic investment the General Assembly made in transportation with record amount of money being driven out to Mass Transit. The budget, as directed by Act 89 of 2013 provides an additional \$60- \$97 million, 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 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.

Motor License Fund

The Motor License Fund is a special revenue fund composed of monies received from liquid fuels taxes, licenses and fees on motor vehicles, aviation fuel tax revenues, federal aid for highway and aviation purposes, contributions from local subdivisions for highway projects and other miscellaneous highway revenues.

The fund provides for highway and bridge improvement, design, maintenance and purchase of rights-of-way, as well as aviation activities and Department of Transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

In 2014-15, the Motor License Fund will be allocated as follows:

- Department of Transportation: \$1,574,950,000
- Department of Agriculture: \$32,328,000
- Department of Community and Economic Development: \$1,073,000
- Department of Conservation and Natural Resources: \$7,000,000
- Commonwealth Technology Services: \$1,371,000
- Treasury: \$19,915,000
- Department of Education: \$1,100,000
- State Police: \$676,118,000
- Department of General Services: \$10,000,000
- Department of Revenue: \$17,645,000

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 budget will fund four new State Police cadet classes that will train a total of 350 new troopers. The cadet classes are needed in order to maintain the complement level.

Of note in the final budget is the restoration of the Forensic Laboratory Support line item, which was funded at \$1.5 million in the budget. Governor Corbett has slated this for elimination in 2013-14 and 2014-15, but both times it was funded at \$1.5 million in the final budget agreement. The much-maligned Statewide Public Radio System will see a cut of \$1.3 million.

The State Police receive their funding from a variety of sources due to their multifaceted mission. In 2014-15, they will receive the following funding:

- General Fund: \$221,062,000
- State Gaming Fund: \$22,995,000
- Firearm Records Check: \$6,214,000
- State Stores Fund: \$26,996,000
- Motor License Fund: \$676,118,000

PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY

The Emergency Management Agency (PEMA) is set to receive a proposed \$14 million in state funding from the General Fund for FY 2014-2015. Also included is a \$5 million supplement to 2013-14 for Summer 2013 Storm Disaster Relief and \$1 million for February 2014 Snow and Ice Storm Disaster Relief.

Once again, the Red Cross Extended Care Program line item is funded at \$150,000 after being slated for elimination in the Governor's February proposal. The Office of the State Fire Commissioner is slated for a slight increase to just over \$2 million.

PEMA receives the majority of its funding through federal money, the bulk of which is \$21 million for Civil Preparedness, the same level as the last two fiscal years.

The budget for PEMA now includes two new line items. There is a \$250,000 appropriation for Search and Rescue Programs as well as \$3 million for Local Municipal Emergency Relief. PEMA currently has a Search and Rescue program that will be funded by this new line. The Local Municipal Emergency Relief money will be divided as follows:

- \$1 million for a multicounty emergency services provider in the Southeast region.
- \$2 million to create a state program to provide assistance to individuals and municipalities affected by disasters that are not eligible for federal assistance.

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.

DEPARTMENT OF REVENUE

The Department's general government appropriation received an increase of \$4.4 million under the 2014-15 budget, which is about \$1.3 million higher than the Governor requested. The increase is due to higher pension costs since the Governor's ill advised reduction of the collars was not implemented. 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 budget finishes the department's six year plan to replace the aging mainframe computer. \$8 million is the final amount needed.

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.

The Professional Licensure Augmentation Account is seeing an increase of a little over \$500,000 in funding for licensing boards. This will be absorbed by fees set by those boards.

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

Finally, there is a new line item for the Department. The Governor's proposal includes \$2.2 million in funding to comply with publication requirements for several proposed Constitutional Amendments.

DEPARTMENT OF PUBLIC WELFARE

The enacted budget for DPW is largely based upon **Gov. Corbett's still unapproved HealthyPA waiver** (an assumed state savings of \$125 million) and **shifting additional General Fund expenditures relating to Long Term Care and Home and Community- Based Services off-line** into the Lottery Fund (an assumed state savings of \$171.477 million) and Tobacco Settlement Fund (an assumed state savings of \$143.813 million). In addition, the enacted budget assumes over \$385.518 million in one-time state savings from **delayed payments to Medicaid managed care organizations** by an additional one month.

The enacted **budget slows the governor's proposed initiatives relating to expansion of community-based services for disabled individuals** and roughly reduces related funding by half. These assumptions anticipate providing services to the same number of recipients for fewer months, including:

- Serving an additional 400 people on the Intellectual Disabilities (ID) Community Waiver programs waiting list, 700 special education graduates and 50 residents currently in the state ID centers.
- Expanding the Attendant Care waiver to 396 additional recipients.
- Expanding Autism waiver services for an additional 100 adults.
- Transitioning 90 residents from state mental health hospitals into the community.

In addition to a portion of the governor's initiatives, the enacted budget **includes funding to support rate increases for personal assistance services and for service coordination**. The enacted budget also **funds the elimination of the Act 150 attendant care program's waiting list**. The enacted budget again appropriates \$8 million in state funds for Day One incentive payments for **nonpublic nursing facilities**. Other adjustments to appropriations include **updating eligibility and utilization assumptions**, making October payments in September to **maximize the federal matching percentage** and **adjusting complement assumptions** relating to new positions under HealthyPA.

The enacted budget reduces state funds for **Cash Grants** by \$15 million with the assumption that unobligated federal TANF funds will offset the reduction. Likewise, the budget reduces state funding for **Early Intervention** to be offset by available federal revenue. Funding for **County Child Welfare** decreases by \$2 million reflecting the passage of Act 28 of 2014 which provided funding for mandated reporter training. The enacted budget includes federal TANF funds to support the proposed initiatives to increase the number of **unannounced inspections each year at regulated child care facilities** proposal and to provide subsidized child care services to an additional 2,895 children.

The enacted budget maintains the proposed increases for **Domestic Violence** (\$1.393 million) and **Rape Crisis** (\$797,000) programs.

For a third year, the enacted budget **does not address the \$84 million cut** in 2012-13 from critical **county human services programs**. The budget does not expand the **Human Services Block Grant program**, which is currently capped at 30 counties. The enacted budget **does not take advantage of savings from expanding Medicaid** for over 500,000 Pennsylvanians, which the Independent Fiscal Office estimated could save the commonwealth \$400 million annually. However, the 2014-15 budget **does benefit from Affordable Care Act (ACA) savings** of \$339 million in the HealthChoices managed care program from pharmaceutical rebates and nearly \$75 million in savings through the Balancing Incentive Program within home and community-based programs for elderly Pennsylvanians and individuals with disabilities.