

2012/2013  
**BUDGET BRIEFING**  
HOUSE APPROPRIATIONS COMMITTEE (D)  
 Report on Key Issues  
 HOUSE APPROPRIATIONS COMMITTEE (D)



**JOE MARKOSEK, DEMOCRATIC CHAIRMAN** July 18, 2012

# Untangling PA Budget Revenue & Expenditures

*Minutes before midnight on June 30, Gov. Corbett signed parts of the final 2012/13 state budget package that includes \$27.656 billion in state funds (the fiscal and tax code bills and non-preferred appropriations were not signed until Monday, July 2).*

*The final, enacted budget varied widely from the plan Gov. Corbett outlined on Feb. 7. Much like a family must balance its checkbook, the state is under a constitutional obligation to pass a balanced budget where it doesn't spend more than its income. This document provides an overview of income and expenditures included in the 2012/13 state budget. More detailed information about funding for specific agencies and programs is available online at [www.hacd.net](http://www.hacd.net).*

Pennsylvania's new spending plan includes a **total of \$63.3 billion in state and federal funds**.

Of the \$63.3 billion, approximately \$50.8 billion of the total requires a legislative appropriation each year, while the remaining expenditures of roughly \$13 billion are governed by existing statute. Total fiscal year 2012/13 appropriations enacted are as follows:

- **\$27.656 billion – Total state-only** General Fund Appropriations, which are contained in the General Appropriations Act (SB 1466);
- **\$19.8 billion – Total General Fund federal funds** included in the General Appropriations Act (SB 1466);
- **\$3.383 billion – Total state and federal**

expenditures from other **Special Funds**, which are contained in the General Appropriations Act (SB 1466);

## Overview

Total funds available to spend (income) each year come from a variety of sources:

- State General Fund revenue mostly comes from

### Components of Budget Package

The state budget is comprised of several components which should be passed by the House and Senate and signed by the governor to implement the spending plan before midnight on June 30. Fiscal Year 2012/13 budget includes the following:

- **General Appropriations** (Act 9A/SB1466)—Signed June 30
- **Fiscal Code** (Act 87/SB 1263)—Signed July 2
- **Tax Code** (Act 85/HB 761)—Signed July 2
- **Education Code** (Act 82/HB 1901)—Signed June 30
- **Public Welfare Code** (Act 80/HB 1261)—Signed June 30
- **Non-Preferreds** (Acts 10A-14A/SB 1122-1126)— Signed July 2

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corporate, personal, and consumption taxes, as well as several smaller tax categories such as realty transfer tax, inheritance tax and tax on table games at casinos.

- There are 10 “Special Funds,” such as the Motor License Fund, Lottery Fund, and Tobacco Settlement Fund. The Special Funds derive revenue through various dedicated funding streams such as statutory transfers or dedicated user fees and taxes (i.e. motor fuels taxes).
- There are at least 144 “Other Funds” that receive revenue mostly through fee assessments.
- Federal funds typically account for about one-third of all revenue across all funds. Most federal funds (99.3 percent) are part of the General Fund. The breakdown of state and federal funds in the General Fund is 58.3 percent state and 41.7 percent federal.
- Any surplus revenue from the prior year is carried forward and available to spend in the next year. In the General Fund, 25 percent of surplus funds is deposited in the Rainy Day Fund; unless legislation is enacted to suspend the transfer.

**The largest decline in revenue is in the area of federal funds, declining by \$1.3 billion from 2011/12 to 2012/13.** Since Gov. Corbett took office the decline from 2010/11 through 2011/12 is nearly \$5 billion, according to the governor’s budget office, mostly due to the end of funding from the federal American Recovery and Reinvestment Act (ARRA). This federal funding was intended for states to use to bridge the budget shortfalls during the recession. In PA, ARRA funds were largely used to maintain level funding for education, healthcare and corrections.

## General Fund – Funds Available to Spend

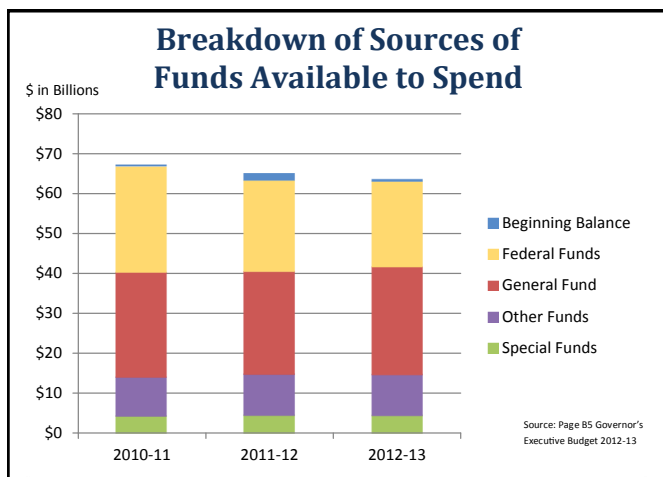
In addition to tax and non-tax revenue, funds available to spend consist of the beginning balance carried forward from the previous year and prior year lapses (unspent money that was originally appropriated). The beginning balance is typically offset by a transfer to the Rainy Day Fund before being carried to the budget year. A provision in the 2012/13 Fiscal Code Gov. Corbett signed on July 2 suspended the transfer to the Rainy Day Fund for this budget year. Another offset to funds available is a reserve to pay state tax refunds.

The governor’s budget proposal in February projected state General Fund revenues to be approximately \$719 million below estimate for the 2011/12 fiscal year. According to Gov. Corbett’s financial statement released on July 6 (*see page 18*), at the close of the 2011/12 fiscal year, revenue collections were \$27.7 billion, which was just \$162.8 million, or 0.6 percent below estimate. **Revenue likely would have more closely matched, or been above, the estimate if the true cost of Gov. Corbett’s business bonus depreciation tax credit for Corporate Net Income taxpayers in January 2011 would have been more accurate.** Although revenues were below estimate, there was a year-end surplus of \$659.1 million due to budgetary freezes during the 2011/12 fiscal year and the fact that there was money left on the table from the previous year, which resulted in a beginning balance of \$1.1 billion for 2011/12. **Republicans voted to ignore the 25 percent transfer to the Rainy Day Fund in both years.**

The governor’s financial statement shows a **surplus of \$292.7 million at the end of fiscal year 2012/13** — funds that were left on the table and could have been appropriated in the budget. The constitutionality of leaving funds un-appropriated is subject to question. *A copy of the governor’s official financial statement is attached.*

### Revenue Increases

State General Fund tax and non-tax revenues are projected by the governor’s office to increase by approximately 3.3 percent. The table on page 3 shows the expected amount of revenue in fiscal year 2012/13, as well as the difference from the prior year, and includes the governor’s proposed revenue modifications explained below.



The most notable change in revenue is the decline in Capital Stock and Franchise Tax revenue due to the gradual phase-out of the rate, which was 2.89 mills (0.289 percent) for tax year 2011 but drops to 1.89 mills (0.189 percent) for tax year 2012.

### Revenue Changes

In February, Gov. Corbett proposed \$242.3 million in additional revenue or diversions to the General Fund, but most of this was rejected by the House and Senate and **did not become part of the final budget package**:

- Placing a cap on the sales tax vendor discount (\$41.3 million) — **rejected**;
- Eliminating the cigarette tax transfer from the General Fund to the Agricultural Conservation Easement Purchase Fund for farmland preservation (\$20.5 million) — **rejected**;
- Eliminating the gross receipts tax transfer from the General Fund to the Alternative Fuels Incentive Grant Fund (\$6.5 million) — **rejected**;
- Transfer from the Keystone Recreation, Park and Conservation Fund to the General Fund (\$38.6 million) — **rejected**;
- Transfer from the Pennsylvania Higher Education Assistance Agency to the General Fund (\$13.8 million) — **rejected**; and
- Most of the proposed enhanced enforcement initiative (\$17.3 of the proposed \$21.6 million) **did not become part of the budget package**.

Only two pieces of the governor’s proposed General Fund revenue increases became part of the final budget package:

- The Fiscal Code (Act 87/SB 1263) provides an appropriation of \$10 million to the Department of Revenue for the Enhanced Revenue Collections Account, which is expected to generate \$100 million in additional revenue from delinquent taxes in the 2012/13 fiscal year.
- The Tax Code (Act 85/HB 761) allows the Department of Revenue to establish an administrative bank

attachment system to pursue delinquent taxes owed by businesses that cannot be reached through wage garnishment. This is expected to generate approximately \$4.3 million in fiscal year 2012/13. This \$4.3 million is the only portion of the governor’s proposed enhanced enforcement initiative that effectively became part of the final budget package.

The Tax Code (Act 85) passed by the General Assembly implements several decreases to revenue. The net effect of increases and decreases contained in Act 85 is an estimated revenue loss of approximately \$90 million in 2012/13 and \$116 million in 2013/14. The net revenue effect of both the Tax Code and Fiscal Code in 2012/13 is a \$10 million increase. **See pages 16-17 for a full list of tax changes.** The following are the major changes contained in the 2012/13 Tax Code which affect the budget year:

- Single Sales Factor Apportionment – Act 85 changes the apportionment factor to 100 percent for purposes of calculating the portion of business income attributable to Pennsylvania. Previously the apportionment factors were 90 percent sales, 5 percent payroll and 5 percent property. The change to a single sales factor effectively gives a greater benefit to businesses physically located in Pennsylvania. The estimated revenue loss associated with this provision is \$12

2012/13 State General Fund Official Revenue Estimate

Tax/Non-tax Category (\$ in millions)	Revenue	Increase (Decrease)	Percent Change
Total Corporation Taxes	\$ 4,915.2	\$ (44.1)	-0.9%
Corporate Net Income Tax	\$ 2,204.5	\$ 182.1	9.0%
Capital Stock and Franchise Tax	\$ 538.9	\$ (298.3)	-35.6%
Sales Tax	\$ 9,219.3	\$ 447.0	5.1%
Cigarette Tax	\$ 1,071.8	\$ 1.9	0.2%
Malt Beverage Tax	\$ 26.0	\$ 0.1	0.4%
Liquor Tax	\$ 310.0	\$ 11.9	4.0%
Personal Income Tax	\$ 11,285.6	\$ 485.1	4.5%
Other Taxes	\$ 1,252.7	\$ 34.6	2.8%
Total Tax Revenue	\$ 28,080.6	\$ 932.1	3.4%
Non-tax Revenue	\$ 509.4	\$ (20.1)	-3.8%
<b>Total State General Fund Revenue</b>	<b>\$ 28,590.0</b>	<b>\$ 912.0</b>	<b>3.3%</b>

Source: 2012/13 Governor’s Executive Budget

million in fiscal year 2012/13 and a loss of \$38 million in 2013/14.

- Educational Improvement Tax Credit (EITC) – The current tax credit program is expanded from an annual cap of \$75 million to \$100 million and is therefore a revenue loss of \$25 million.
- Educational Opportunity Scholarship Tax Credit – This is a newly created tax credit program with an annual cap of \$50 million, often called “**Vouchers Lite.**” A separate education briefing will be posted online this summer at [www.hacd.net](http://www.hacd.net).

### Cracker Tax Credit

Although there is no impact on the current budget year, a major change contained in the Tax Code is the creation of the Resource Manufacturing Tax Credit (also known as the “Cracker Credit”.) This is a credit provided to a business that purchases ethane to be manufactured into ethylene, often processed at what is referred to as a “cracker” plant. A qualified taxpayer must make at least a \$1 billion investment in constructing the manufacturing facility, and the construction of the facility must require at least 2,500 construction jobs. The credit is granted at a rate of \$0.05 per gallon of ethane purchased and applies to years between 2017 and 2024. **There is no annual or cumulative cap on the credit, and therefore the revenue loss associated with this is unknown and unlimited during the applicable years.**

## Expenditures

The final 2012/13 budget includes total expenditures of approximately \$63.3 billion (state, federal and other funds), which is comprised of the following:

- \$47.419 billion total General Fund, of which \$27.7 billion is state-only General Fund and \$19.8 billion is federal General Fund.
- \$3.383 billion for Other Special Funds that require legislative appropriations in the General Appropriations bill, such as the Motor License Fund, Lottery Fund, Tobacco Settlement Fund.

- An estimated \$13 to \$14 billion in expenditures in other funds per existing statutes.

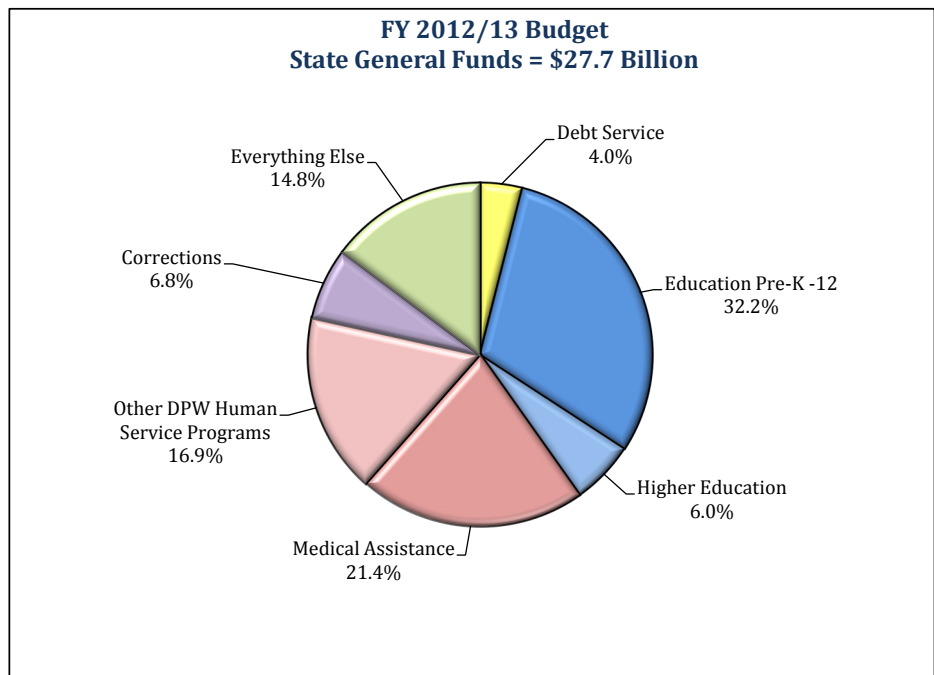
The chart below shows a breakdown of the \$27.7 billion state General Fund by broad spending categories. Across all funds, spending is \$1.6 billion less than 2011/12 with approximately \$1.1 billion of that from federal fund cuts.

### Notable Spending Issues for 2012/13:

- Education (primarily K-12) — Restores significant cuts Gov. Corbett proposed, but continues roughly \$1 billion cuts from his first year in office.
- DPW — Cuts and cost containment measures worth \$763.9 million are implemented in 2012/13; on top of the \$1.03 billion in cuts enacted in Gov. Corbett’s first year.
- Debt Service — Debt service increases by \$52.9 million.
- Pensions — \$1.3 billion in required employer pension liabilities for state and school employees continues to drive spending.

## General Fund – Expenditures By Agency

Although some appropriations appear to receive level funding as compared to FY 2011/12, there are actually cuts to existing functions to absorb the mandated or unavoidable cost increases due to the



rising pension obligations, healthcare costs, and increases in caseload. Therefore, level funding for an agency often means less money to spend on programs and services.

## Department of Agriculture

The Department of Agriculture's General Government Operations is cut 0.9 percent in the 2012/13 budget for a total appropriation of \$26.2 million. The total General Fund appropriation for all agricultural programs is a 2.7 percent cut, or \$129.5 million for 2012/13. The final budget restores funding to the following programs for which Gov. Corbett proposed eliminating:

- Agricultural Excellence
- Agricultural Research
- Agricultural Promotion, Education, and Exports
- Hardwoods Research and Promotion
- Livestock Show
- Open Dairy Show
- Food Marketing and Research

The University of Pennsylvania Veterinary Activities will receive level funding at \$27.889 million and the University of Pennsylvania Center for Infectious Disease will receive \$248,000 in 2012/13. These non-preferred appropriations will be funded under the Department of Agriculture. Transfer to the Agricultural Land Scrip Fund (for PSU Ag) will receive level funding at \$44.737 million.

**The final 2012/13 budget rejects Gov. Corbett's proposal to take \$72.3 million from the Race Horse Development Fund.** However, the budget does transfer \$5 million from the Race Horse Development Fund to the State Farm Show Products Fund and of that \$5 million, \$2 million will be distributed to County Fairs, according to the Fiscal Code.

**The final budget also rejected Gov. Corbett's proposal to use a transfer of \$20.485 million from the Growing Greener Bond Fund for the Agricultural Conservation Easement Purchase Fund.** Instead, \$20.485 million in Cigarette Tax money will be used, maintaining the status quo.

The budget eliminates the inheritance tax for working farms. Previously, when a farm owner died,

heirs to their farm property had to pay an inheritance tax of 4.5 percent if they were adult children and 12 percent if they were siblings of the deceased.

## Row Offices

General Government Operating appropriations for the three state row offices — Attorney General, Treasurer, and Auditor General — were all cut in the final 2012/13 budget by 5 percent

## Department of Community and Economic Development

When local governments are facing potential financial insolvency, the Municipalities Financial Recovery program – Act 47 – assists through grants and no-interest loans, offers extensive technical assistance, and helps prepare and implement comprehensive recovery plans. There are currently 21 municipalities that DCED has determined to be distressed.

The 2012/13 budget provides an additional \$11.2 million appropriation for these financially strapped municipalities, increasing the total annual Act 47 funding commitment from \$925,000 in 2011/12 to \$12.1 million. This increase is driven by the need to bolster Act 47's revolving aid fund, while at the same time, recognizing the reality that more local communities are likely to face financial insolvency in the next 12 months.

Pennsylvania's PennPORTS program supports the improvements to, and the operations of, the ports of Philadelphia, Erie, and Pittsburgh. *The chart on page 6 shows a three-year funding history*, in dollars and in the share of total funding, of the PennPORTS program.

Gov. Corbett made three changes regarding the PennPORTS program in last year's (2011/12) budget. First, he combined the then six different PennPORTS appropriations in the Department of Community and Economic Development under one appropriation, giving the legislature less influence on how the money is disbursed among Pennsylvania's three ports. Second, Gov. Corbett eliminated funding for the Navigation System and Goods Movement and Intermodal Coordination programs, both of which supported projects at the Philadelphia Regional Port Authority. The last, and arguably most significant change, was Gov.

Corbett's decision to effectively discontinue the Port of Pittsburgh's allocation in fiscal year 2011/12 until the southwestern port draws-down on its roughly \$4 million reserve; neither the Port of Erie nor the Philadelphia Regional Port Authority had a reserve.

At the start of the 2012/13 fiscal year, the Port of Pittsburgh's reserve is now closer to \$3.3 million since its 2011/12 operating costs were paid almost entirely out of the reserve.

The Fiscal Code in the final 2012/13 budget package determined how the PennPORTS money is to be broken out. The combined amount for the PennPORTS program is flat-funded. The Port of Pittsburgh is to receive almost half of its traditional appropriation instead of the meager amount it received in 2011/12. **This 'extra' money for the Port of Pittsburgh is diverted from the money available for the PennPORTS Operations and the Philadelphia Regional Port Authority.** The Port of Erie was level-funded.

## Department of Conservation and Natural Resources

Providing a small glimmer of hope for environmental programs, **the final 2012/13 budget maintains funding for the Key '93 Fund.** Gov. Corbett wanted to move the share of the Keystone Fund that went to conservation projects and deferred maintenance for the State System of Higher Education — 83 percent of the fund, or \$38.6 million — to the General Fund.

The 2012/13 budget includes \$52.7 million in state funding for the Department of Conservation and Natural Resources (DCNR), a decrease of \$2.6 million, or 4.6 percent, compared to 2011/12. Overall, Gov. Corbett has cut state funding for DCNR by \$28.1 million, or 34.8 percent, since taking office.

DCNR's total budget from all funds, however, has only decreased 3.8 percent over the same two-year period because the influx of oil and gas royalties and rents have been used to somewhat offset the deep cuts in the state General Fund. As a result, **Pennsylvania's conservation agency is becoming increasingly reliant on resource extraction for its operating budget.** For instance, 77.4 percent of Pennsylvania's State Forest budget is made up of money from timber sales and oil and gas revenues. In 2007/08, oil and gas rents and royalties made up just 1.1 percent of DCNR's total budget; in 2012/13 DCNR will depend on the natural gas industry for 29.8 percent of its annual budget. **Not only is this funding source unsustainable, but the potentially destructive nature in which it is harvested is inconsistent with the agency's core mission.**

## Department of Corrections

The final 2012/13 budget provides **level funding at \$1.867 billion for the Department of Corrections** including \$8.2 million for salary increases to address corrections management pay compression that stemmed from union employees receiving increases while management did not receive pay increases. The department will eliminate 192 positions. Cost savings of \$21.2 million in 2012/13 is anticipated from reductions in contracted medical care costs within the Inmate Medical Care appropriation. The new medical contract DOC has ensures that nurses working in the prison system are not privatized.

As of May 31, 2012, there were 51,558 inmates under the jurisdiction of DOC; this is 105.4 percent over capacity. DOC recently announced that it would not be reopening SCI Waynesburg in Greene County as DOC expects to have fewer inmates in the near future as a result of initiatives in Act 122 of 2012 (Senate Bill 100). SB 100 passed in the House and Senate unanimously and originated from the

PennPORTS Funding through Community & Economic Development <i>(\$ in thousands)</i>	Actual FY10-11		Available FY11-12		Enacted FY12-13	
	Dollars	% of total	Dollars	% of total	Dollars	% of total
PennPORTS Operations	\$372	7.9%	\$318	8.6%	\$258	6.97%
PennPORTS-Port of Pittsburgh	\$724	15.4%	\$52	1.4%	\$296	8.0%
PennPORTS-Port of Erie	\$836	17.7%	\$851	23.0%	\$852	23.03%
PennPORTS-Philadelphia Regional Port Authority Operations	\$2,455	52.1%	\$2,478	67.0%	\$2,293	62.0%
PennPORTS-Navigation System	\$93	2.0%	\$0	0.0%	\$0	0.0%
Goods Movement and Intermodal Coordination	\$233	4.9%	\$0	0.0%	\$0	0.0%
<b>PennPORTS Total</b>	<b>\$4,713</b>		<b>\$3,699</b>		<b>\$3,699</b>	

*Note: The Philadelphia Regional Port Authority Debt Service receives its own, separate state appropriation.*

state's Justice Reinvestment Initiative which was guided by the Council of State Governments and other organizations such as the Pew Foundation. Under Act 122, DOC expects to reduce the inmate population by 637 in 2012/13 by diverting offenders who commit third-degree misdemeanors and ungraded misdemeanors; reducing the number of offenders serving short minimum sentences; increasing the number of parole cases heard; reducing the percentage of population in prison after parole; and re-designing community corrections centers/community correction facilities and capping time served in prison by technical parole violators.

Act 122 (SB 100) will save the commonwealth approximately \$253 million over the next five years. The savings will be accomplished by various methods, including: expanding the use of County Intermediate Punishment, State Intermediate Punishment, Boot Camp, and requiring that only offenders who commit a 2nd-degree misdemeanor or higher will be sentenced to a state correctional facility. Currently, the recidivism rate in the commonwealth is 44 percent. Addressing productive reentry to the community will also be a focus of the Justice Reinvestment Initiative.

A part of the Justice Reinvestment Initiative would reinvest money saved into the local communities for policing and early intervention. It would also reinvest money into the Probation and Parole system to maintain supervision over offenders who leave prison.

## **Intermediate Punishment Treatment Programs**

In fiscal year 2011/12, the Intermediate Punishment Programs and the Intermediate Punishment Drug and Alcohol Treatment appropriations were consolidated into the Intermediate Punishment Treatment Program. The final 2012/13 budget provides level funding at \$18.2 million to help counties implement various intermediate punishment program options for non-violent offenders in lieu of incarceration.

## **Juvenile Probation Services**

In fiscal year 2011/12, Improvement of Juvenile Probation Services and Specialized Probation Services were collapsed into one appropriation called Juvenile Probation Services — a critical part

of the juvenile justice system as it is the only consistent funding stream available to support juvenile probation departments. The final 2012/13 budget reduced funding by 5 percent to \$16.445 million.

## **Board of Probation and Parole**

The Board of Probation and Parole (Board) will see an overall increase of 3.8 percent, or \$131.7 million, in the final 2012/13 budget. The General Government Operations appropriation will see a 5.1 percent increase, or \$5.3 million, more for 13 additional parole agents. Last year 53 agents were added.

The Sexual Offenders Assessment Board will receive a 7.6 percent, or \$5.2 million, increase over 2011/12.

The Improvement of Adult Probation Services will receive a 5 percent cut of \$854,000 in 2012/13. This appropriation will receive \$16.2 million to fund 1,014 eligible incumbent county adult probation positions in 65 counties.

Act 122 (SB 100) will impact the Board by adding approximately 613 more parolees to the Board's jurisdiction in 2012/13. As DOC moves more eligible offenders to serve parole through streamlining the process, the Board will see an increase in the need for more agents for supervision. An issue that the Justice Reinvestment Initiative addresses is the lag time between offenders being eligible for parole and being released to parole. It costs the commonwealth approximately \$35,000 per year to house an inmate in a state correctional facility, while it costs approximately \$3,000 to supervise an offender on parole.

## **Commission on Crime and Delinquency**

The Pennsylvania Commission on Crime and Delinquency receives a 4.2 percent, or \$135,000, increase for a total of \$3.318 million in the final 2012/13 budget. However, PCCD will see a decrease of nearly \$25 million in federal funds.

According to the Fiscal Code, from money appropriated to PCCD, at least \$85,000 will be used to support the Statewide Automated Victim Information and Notification System (SAVIN); and at least \$50,000 will be used for gang violence prevention initiatives in 3rd class counties.

## Department of Education

### K-12 School Funding

**K-12 classroom funding as compared to 2011/12 is flat-funded.** Relative to pre-Corbett K-12 classroom spending, the final 2012/13 budget **locks in the roughly \$1 billion in cuts to classroom funding implemented in the 2011/12 Republican budget.**

The final 2012/13 budget **includes \$49 million added to the Basic Education Funding appropriation to provide supplemental funding to financially distressed school districts.** Of this amount, \$39 million will provide grants to 16 financially distressed school districts; the remaining \$10 million is expected to be distributed to qualifying school districts through the newly created Financial Recovery Transitional Loan Program. Separately, \$14 million is made available to the Chester-Upland School District in Chester County for obligations related to the 2011/12 fiscal year; \$2.5 million is made available to the Duquesne School District in Allegheny County as a Basic Education Funding enhancement including \$500 per pupil for transitional services related to students in 7th, 8th, and 9th grades reassigned to neighboring school districts at a cost of approximately \$68,500 per year.

Funding for the 11-year-old Educational Improvement Tax Credit (EITC) program was increased by \$25 million, to \$100 million and authorizes the award of tax credits to businesses that make contributions to scholarship organizations, educational improvement organizations, and pre-kindergarten scholarship organizations.

The budget includes a **newly created tax credit program, the Educational Opportunity Scholarship Tax Credit program (EOSC), commonly known as "Vouchers-Lite."** The tax credit program makes available \$50 million in tax credits to businesses that contribute to scholarship organizations for the purposes of providing school vouchers to qualifying students who reside within low-achieving public school boundaries.

Funding for the school construction program, **PlanCon, is flat-funded for 2012/13** and a moratorium on new school construction applications was instituted. This appropriation

### *Notable Education Funding Facts*

For the first time in history, this year Gov. Corbett attempted to lump the non-classroom education funding the state is required to pay school districts for transportation and social security to make it appear the state is increasing K-12 education funding. Not even Republicans in the House and Senate agreed with the governor's approach because **in reality, those mandated funds do not impact classroom education the same way as a school's Basic Education Funding and Accountability Block Grant funding.** The final 2012/13 K-12 education funding continues the roughly \$1 billion in cuts to school districts enacted in 2011/12, but does provide some additional funding for distressed schools. **Democrats pushed hard to successfully restore Gov. Corbett's elimination of \$100 million for the Accountability Block Grant** that many schools use for early child education programs such as full-day kindergarten.

There are essentially three ways to compare K-12 funding in 2012/13 to previous years. This year schools are receiving:

- **Roughly \$1 billion** (\$982.5 million) **in total cuts** continued from Gov. Corbett's first budget (as compared to 2010/11 which included federal stimulus money)
- **\$861.3 million in net cuts** compared to 2010/11 (factoring in some increased appropriations; excluding pension funding)
- **\$309 million less than four years ago in 2008/09** (major state education funding subsidy categories; before federal stimulus money)

provides statutorily mandated state reimbursement to school districts for a portion of capital expenditures on school construction projects as well as reimbursements to charter schools for the cost to lease facilities. Existing projects will not be affected.

The budget includes \$900,000 in state funds, and \$2.8 million in federal funds, for teacher evaluations. State funding is made available with existing funds through the Teacher Professional Development appropriation and through the federal Race to the Top grant award for the ongoing pilot program. *Additional education funding information will be provided in a separate Budget Briefing this summer online at: [www.hacd.net](http://www.hacd.net).*



## Higher Education

The final 2012/13 budget provides flat funding for institutions of higher education compared to 2011/12. However, these funding levels are significantly lower than 2010/11 (Gov. Rendell's last budget), because of the major cuts imposed in last year's budget.

PHEAA grants received \$344.88 million in the final 2012/13 budget, a reduction of \$36 million. However, PHEAA intends to maintain the 2011/12 grant levels by making up for the state appropriation shortfall with \$10 million in unspent funds rolled forward and by using another \$25 million in business earnings to help shore up the program. PHEAA was already contributing \$50 million in business earnings, so the total

contribution will now reach \$75 million. PHEAA believes the increased business contribution plus the unexpired funds will be sufficient to keep the state grant program stable.

The transfer to the **Community College Capital Fund**, which supports the building needs of the 14 community colleges, **received a \$1.5 million increase**, bringing the total to \$47.8 million in 2012/13.

The appropriation for Community Education Councils, which provide access to higher education services in rural communities where there is no local community college or state system university, increases by \$600,000, to \$1.8 million.

Funding for medical schools remains under the Department of Public Welfare.

## State Funding for Higher Education 2010/11 to 2012/13

<i>(\$ in thousands)</i>	2010/11	2011/12	2012/13	12/13 Less 11/12	12/13 Less 10/11	Two Year % Cut
<b>Community Colleges</b>	<b>235,741</b>	<b>212,167</b>	<b>212,167</b>	<b>0</b>	<b>(23,574)</b>	<b>-10%</b>
<i>State</i>	214,217	212,167	212,167			
<i>Federal</i>	21,524	0	0			
<b>State System of Higher Education</b>	<b>503,355</b>	<b>412,751</b>	<b>412,751</b>	<b>0</b>	<b>(90,604)</b>	<b>-18%</b>
<i>State</i>	465,197	412,751	412,751			
<i>Federal</i>	38,158	0	0			
<b>Penn State University**</b>	<b>281,244</b>	<b>227,694</b>	<b>227,694</b>	<b>0</b>	<b>(53,550)</b>	<b>-19%</b>
<i>State</i>	265,453	227,694	227,694			
<i>Federal</i>	15,791	0	0			
<b>University of Pittsburgh</b>	<b>167,995</b>	<b>136,076</b>	<b>136,076</b>	<b>0</b>	<b>(31,919)</b>	<b>-19%</b>
<i>State</i>	160,490	136,076	136,076			
<i>Federal</i>	7,505	0	0			
<b>Temple University</b>	<b>172,737</b>	<b>139,917</b>	<b>139,917</b>	<b>0</b>	<b>(32,820)</b>	<b>-19%</b>
<i>State</i>	164,974	139,917	139,917			
<i>Federal</i>	7,763	0	0			
<b>Lincoln University</b>	<b>13,782</b>	<b>11,163</b>	<b>11,163</b>	<b>0</b>	<b>(2,619)</b>	<b>-19%</b>
<i>State</i>	13,623	11,163	11,163			
<i>Federal</i>	159	0	0			
<b>Thaddeus Stevens</b>	<b>10,876</b>	<b>10,332</b>	<b>10,332</b>	<b>0</b>	<b>(544)</b>	<b>-5%</b>
<i>State</i>	8,550	10,332	10,332			
<i>Federal</i>	2,326	0	0			

\*\* Penn State funding does not include agricultural research and agriculture extension, now funded through a transfer under the Department of Agriculture.

## **Department of Drug and Alcohol Programs**

The final 2012/13 budget reflects Act 50 of 2010 which transferred the Bureau of Drug and Alcohol Programs in the Department of Health (DOH) to a new Department of Drug and Alcohol Programs (DDAP). The budget transfers operations (including 76 positions) and grant programs from DOH to DDAP. The final budget includes an increase of \$534,000 for Assistance to Drug and Alcohol Programs; however, recall that the 2011/12 enacted budget reduced this appropriation by \$1 million. Therefore, funding for drug and alcohol treatment has decreased by \$466,000 compared to when Gov. Corbett took office.

## **Emergency Management Agency**

As a result of Hurricane Irene and Tropical Storm Lee, Pennsylvania is set to receive approximately \$65 million in federal funding for Hazard Mitigation. The final budget also includes \$2.64 million in state funds for this purpose. In addition, the budget includes a total of \$20 million in state funds related to disaster assistance for the summer 2011 storms.

## **Department of Environmental Protection**

The final 2012/13 budget includes \$124.8 million for the Department of Environmental Protection (DEP), a decrease of \$10.6 million, or 7.8 percent, compared to 2011/12 (excluding the Environmental Hearing Board). **This amounts to a \$17.3 million, 12.2 percent, cut since Gov. Corbett took office.** State funding for DEP declined by \$95.6 million, or 43.4 percent, over the past five years.

In 2011/12, **Gov. Corbett eliminated the Flood Control Projects program** designed to prevent and offset the high costs of flood damage. In his 2012/13 proposed budget, the governor's shortsightedness went even further as he eliminated the Sewage Facilities Enforcement and Planning Grants which offset the costs borne by local communities to regulate their sewage treatment or update their aging sewage treatment infrastructure. The final Republican-drafted budget supported this proposal.

The Marcellus Shale boom continues to add new challenges for environmental protection in Pennsylvania. As the natural gas industry continues

to grow — increasing the number of permit reviews and well inspections that need to take place — the DEP staff in the Bureau of Oil and Gas Management has not increased since Gov. Rendell added 105 staff to the bureau.

## **Department of Health**

The final 2012/13 budget does not move operations of the currently independent Health Care Cost Containment Council (HC4) or the Patient Safety Authority (PSA) to the Department of Health (DOH) as Gov. Corbett wanted to do.

While the budget provides some additional funding for several health appropriations above the governor's proposed amounts, many of these programs remain funded at a fraction of their 2010/11 levels. Exceptions are the Biotechnology Research appropriation (an increase of \$2.3 million over 2010/11) and a new appropriation for Amyotrophic Lateral Sclerosis Support Services (\$300,000).

Through amendments to the Fiscal Code, the final budget package cuts some of the CURE health research program funded by the Tobacco Settlement fund (*see page 14-15*).

## **Insurance Department**

The 2012/13 budget includes an additional \$4.2 million for the Children's Health Insurance Program (CHIP) anticipating an increase of 725 children in average monthly enrollment.

## **Judiciary**

The 2012/13 budget increased the Judiciary budget by 3.1 percent to nearly \$308.2 million. The largest increase was the appropriation for the Courts of Common Pleas which will receive a 4.9 percent increase, or \$4.5 million, more than 2011/12.

Chief Justice Castille requested that vacancies in the Courts of Common Pleas not be filled because of budgetary concerns. In Allegheny County, court cases have been on the decline and a vacancy could have been maintained to save money. However, Gov. Corbett nominated five judges (including his former chief of staff) to fill vacancies in the Courts of Common Pleas across the commonwealth and the Senate has approved his recommendations which included two judges in Allegheny County, two judges in Philadelphia, and one in York. Each judge in the Courts of Common Pleas costs the

commonwealth \$200,000; related costs at the local level will also be incurred since the state only pays for salary and benefits for the judges. There are also two judges for the Philadelphia Municipal Court that have been nominated by the governor and are still waiting to be confirmed by the Senate.

## Department of Labor & Industry

The transfer to the Vocational Rehabilitation Fund reflects flat funding in the final 2012/13 budget. The appropriation, totaling \$40.47 million, funds the Office of Vocational Rehabilitation (OVR), which helps people with disabilities get the services they need to live independently and secure employment.

**Funding for the Centers for Independent Living is cut 5 percent.** The CILs also must contend with an additional reduction for administrative costs charged to the appropriation by OVR as the result of a federal audit, which will further reduce the available funds flowing to the CILs.

The appropriation for assistive technology was split into two separate appropriations in the final 2012/13 budget. The first piece, now entitled assistive technology devices, supports the Pennsylvania Assistive Technology Foundation's low-interest loan program to help finance the purchase of assistive technology devices and received \$244,000. The second portion supports the statewide assistive technology lending library. The lending library is run in conjunction with Temple University and helps Pennsylvanians try devices before purchasing. The appropriation, now called assistive technology demonstration and training, received \$399,000. Together, these two appropriations total \$643,000, which is a 5 percent reduction from 2011/12.

Both the New Choices/New Options and Industry Partnerships appropriations received flat funding.

## Lottery Fund

The final 2012/13 budget spends \$1.2 billion of Lottery Fund revenues on senior programs, nearly \$101 million more than 2011/12. The increased spending is driven by a \$130 million spike in Lottery Fund revenues used to help pay for the Medical Assistance Long Term Care, which reduces the need for the state to spend General Fund revenues on this program.

In February, Gov. Corbett requested \$250 million

for long term care services. However, the General Assembly used the additional revenue generated by strong lottery ticket sales in the last quarter of the 2011/12 fiscal year to increase that amount by \$59 million to \$309.1 million.

*The following table details 2012/13 Lottery Fund expenditures by agency and program.* Expenditures for programs administered by the Department of Aging and the Department of Public Welfare are appropriated from the Lottery Fund as part of the General Appropriations Act (Act 9A/SB 1466). Expenditures for programs administered by the Department of Revenue and the Department of Transportation are made through Executive Authorizations that do not require approval from the House or Senate.

*More detailed information on the State Lottery Fund is provided in a separate budget briefing that will be available this summer online at: [www.hacd.net](http://www.hacd.net).*

State Lottery Fund 2012/13 Expenditures for Senior Programs	Dollars in Millions
<b>Department of Aging:</b>	
PennCARE	\$248.2
Pre-Admission Assessment	\$10.7
Caregiver Support	\$12.1
Pharmaceutical Assistance Fund Transfer	\$190.0
Alzheimer's Outreach	\$0.3
<b>Department of Public Welfare:</b>	
Medical Assistance Long-Term Care	\$309.1
<b>Department of Revenue:</b>	
Property Tax and Rent Rebate	\$286.1
<b>Department of Transportation:</b>	
Shared Ride	\$80.8
Free Transit	\$91.3
<b>TOTAL</b>	<b>\$1,228.5</b>

## Department of Military and Veterans' Affairs

The final 2012/13 budget reduces funding for Veterans' Homes by \$7.6 million, or 8.2 percent. This is an additional cut of \$1.4 million from the governor's February proposal. The governor's proposal reduced funding by \$6.2 million, or 6.7 percent, which included a reduction of \$5 million associated with implementing a "uniform staffing and service model at all veterans' homes," **eliminating approximately 67 positions in Veterans' Homes.**

## Department of Public Welfare

The final 2012/13 budget for the Department of Public Welfare totals approximately \$27.6 billion (state, federal and other funds), a decrease of more than \$200 million from the 2011/12 budget.

State General Funds account for \$10.585 billion of the 2012/13 DPW budget. This is \$24.76 million more than the 2011/12 budget and \$54 million above Gov. Corbett's initial request.

Some of the major differences between the enacted 2012/13 budget and Gov. Corbett's proposed budget are listed below.

- Rejection of Gov. Corbett's proposal to consolidate funding for county human service programs into a single Human Services Development Fund Block Grant that cut county grants by 20 percent. Instead, county human service programs will continue to be funded through the existing categorical appropriations with a 10 percent cut and up to 20 counties will be allowed to participate in a block grant pilot program.
- Rejection of the proposed 4 percent cut in the Medical Assistance per diem rates paid to nursing homes.
- Rejection of the following hospital cuts -- the proposed 4 percent across-the-board reduction in Medical Assistance rates, the proposed 10 percent reduction in special payments (for burn centers, trauma centers, critical access hospitals, and Obstetric/neonatal payments), and elimination of the healthy newborn payment that had been implemented per the Act 22 regulatory authority given to the DPW secretary as part of last year's budget.
- Rejection of the proposed

10 percent reduction in funding for medical schools (funded through the Academic Medical Centers appropriation and Physician Practice Plans appropriation).

- Rejection of Gov. Corbett's recommendation not to address the waiting list for persons with intellectual disabilities. Instead, the General Assembly added funding to provide home and community-based services for 700 special education graduates and 430 individuals with aging caregivers who are on the county emergency waiting list.

Altogether, the above changes to Gov. Corbett's budget proposal added \$171 million in state funds. However, the actual need for additional state General Fund dollars in DPW's budget was reduced significantly as the result of the various actions taken by the General Assembly to cut state spending. In particular, the following specific actions saved the state \$107 million, offsetting the cost associated with the above additions.

- Shifting additional Medical Assistance Long Term Care expenditures from the General Fund to the

Description of Cuts and Cost Containment in 2012/13 DPW Budget		(\$ in Millions)	2012/13 State Cuts
County Human Services - 10% Funding Cut			\$ 83.7
Community Mental Health Services		55.0	
ID Community Base Program		14.5	
County Child Welfare - special grants		4.4	
Behavioral Health Services		4.8	
Homeless Assistance		2.1	
Human Services Development Fund		1.5	
Act 152 D&A Program		1.5	
General Assistance Program Cuts			\$ 320.3
Cash Grants eliminated Aug. 1, 2012 *		150.0	
Medical Assistance eligibility changes *		170.3	
Medicaid Cuts and Cost Containment			\$ 327.3
High Cost Case Reviews - MA and Waiver Programs *		45.0	
Hospital Rates - retroactive CMI adjustment		24.0	
Hospital Application Process revision - MA *		10.0	
Increase MAWD monthly premium for disabled workers *		8.5	
Audit enhancements - MA program *		5.0	
Shifting more costs to special funds - MA Long Term Care *		89.8	
Extending nursing home assessment - MA Long Term Care *		145.0	
Other DPW Cuts/Cost Containment			\$ 32.7
Child Care provider reimbursement revisions, etc. *		24.2	
Child Care - unspecified cuts		4.0	
Foster Care Enhancements - savings due to increased federal funds *		4.5	
<b>GRAND TOTAL</b>			<b>\$ 763.9</b>

\* Largely reflects the cuts and cost containment measures initially proposed by Gov. Corbett.

special funds, beyond the amount requested initially by Corbett.

- Retroactively implementing a CMI (case mix index) adjustment in calculating specific hospital Medical Assistance rates.
- Enacting deeper cuts in child care funding.
- Enacting deeper funding cuts in Medical Assistance Outpatient and Medical Assistance Capitation.

To arrive at the net \$24.7 million increase in DPW's state appropriation, **cuts and cost containment measures totaling \$763.9 million will be implemented by DPW in 2012/13** to make up for increased costs driven by inflation, caseload, litigation and federal statutes. Without these cuts and cost containment measures, a \$788 million increase in state appropriations would have been required for DPW. The table on page 12 summarizes the various program cuts and cost containment measures incorporated in the final 2012/13 budget.

### Cash Assistance Eliminated

The final 2012/13 **budget incorporated Gov. Corbett's proposal eliminating cash assistance benefits** (effective Aug. 1, 2012) provided through the General Assistance (GA) program, equating to a reduction of \$150 million in the Cash Grants appropriation. The entirely state-funded GA program dated back to the Great Depression and largely served **approximately 63,000 low-income individuals** with a medically verified permanent or temporary disability who do not qualify for the federally funded Temporary Assistance for Needy Families (TANF) benefit. Other eligible recipients include: children under age 18 under the care of an unrelated adult; individuals age 18-20 attending a secondary school; individuals in a drug and alcohol treatment program and victims of domestic violence.

### General Assistance – Medical Assistance Restricted

The 2012/13 **budget reflects Gov. Corbett's proposal to restrict Medical Assistance eligibility** for the General Assistance (GA) population, which is expected to reduce state spending by \$170 million in 2012/13. **Approximately 108,000 chronically ill adults**, who do not meet federal eligibility criteria for Medicaid, receive Medical Assistance benefits under the GA program established by state law.

Pennsylvania statute establishes Medical Assistance eligibility for two GA groups: "categorically needy" and "medically needy." The vast majority of categorically needy adults have a temporary disability that qualifies them for MA benefits; many of the medically needy adults qualify for MA benefits because they have high medical expenses.

The following **changes in the eligibility criteria used to determine Medical Assistance benefits are expected to end coverage for 35,000 adults:**

- For "categorically needy" adults, DPW will tighten its standards and the process used to determine whether **88,000 adults** have a qualifying temporary disability that allows them to receive MA benefits.
- For "medically needy" adults, the Public Welfare Code was amended in this budget to require **approximately 10,000 custodial parents** (age 21 through 58) with dependent children to work at least 100 hours per month earning at least the minimum wage to receive Medical Assistance. Previously, this work requirement only applied to 3,800 non-custodial parents, age 21 through 58.

### Child Care Programs Cut

The final **budget cuts child care programs by \$20.6 million**, or 6.5 percent, when compared with 2011/12. These cuts represent changes in provider billings, new reporting requirements for clients claiming self-employment and a move to six month redeterminations of eligibility. In addition, the budget cuts \$4 million without specificity as to what component of the program may be affected. Despite a campaign promise to protect early childhood programs, the final 2012/13 budget represents a \$63.2 million, or 17.5 percent, cut to child care programs since Gov. Corbett took office.

*Detailed explanations of these measures and the final 2012/13 DPW budget can be found in a series of separate budget briefings that address Human Services Programs, Economic Stabilization Supports (including the General Assistance cash program), Medicaid Programs (including Medical Assistance and community Waiver programs), and Child Services. These briefings will be posted online throughout the summer at [www.hacd.net](http://www.hacd.net).*

## Rainy Day Fund

**No funds will be transferred to the Rainy Day Fund** (Budget Stabilization Reserve Fund) **again this year**, as proposed by Gov. Corbett and as implemented in an amendment to the Fiscal Code. General Fund surpluses (revenues less expenditures) for the last several years would have triggered an annual transfer without a suspension of current law. When Gov. Corbett assumed office, he ended that year (FY 2010/11) with a \$1.1 billion surplus, which included \$785 million in revenue above the estimate. He ended the most recent fiscal year (2011/12) with a \$695.1 million surplus and **expects to end the current year (2012/13) with a \$292.6 million surplus**. Without a suspension, current law requires a transfer of 25 percent of surplus General Funds to the Rainy Day Fund. For example, the transfer for 2011/12 would have been \$164.8 million.

## Retirement Plans

### Public Employee Retirement Commission

The final 2012/13 budget includes \$710,000 for the Public Employee Retirement Commission (PERC) to continue monitoring public retirement plans and to assure their actuarial viability. This is an increase of \$20,000, or approximately 3 percent.

### State Employees' Retirement System (SERS)

The final 2012/13 budget includes approximately \$476 million in mandated state-paid employer contributions for state employees' retirement, pursuant to Act 120 of 2010. This is an increase of \$156 million, or 48.8 percent.

### Public School Employees' Retirement System (PSERS)

The final 2012/13 budget includes \$856 million in mandated state-paid employer contributions for public school employees' retirement, pursuant to Act 120 of 2010. This is an increase of \$256 million, or 42.6 percent.

## State Police

Funding for the State Police in the final 2012/13 budget includes \$195.254 million from the state General Fund (an increase of \$8.5 million, or 4.6 percent, compared to 2011/12), plus \$584.7 million from the Motor License Fund.

The State Police General Government Operations

will receive \$706.4 million (\$176.6 million from the General Fund and \$529.8 million from the Motor License Fund). **This represents a one percent increase over fiscal year 2011/12.**

According to a Fiscal Code amendment, money from the State Police General Government Operations shall be **used for a cadet class of not less than 100 cadets for 2012/13**. However, recent projections are that the **State Police could face a shortage of anywhere from 435 to 1,000 troopers in the near future**. Clearly additional cadet classes are needed now to cover this shortfall. According to the State Police, they will be closing the Ephrata barracks by Aug. 17, 2012. Troopers stationed there will be moved to the Lancaster station.

As of June 29, 2011 the State Police trooper complement is:

- 4,677 total authorized troopers – 4,223 positions are filled and 454 are vacant.
- 238 troopers authorized to work on the turnpike – 204 are filled and 34 are vacant.
- 129 troopers authorized to work in gaming – 122 are filled and 7 are vacant.\*

\*The Bureau of Gaming Enforcement received 12 new positions effective July 1, 2012. They are not included in the complement numbers above.

## Tobacco Settlement Fund

The final 2012/13 budget includes \$337 million of spending from the Tobacco Settlement Fund for health-related programs. *The table below shows 2012/13 Tobacco Settlement Fund expenditures by program area.*

Tobacco Settlement Fund 2012/13 Expenditures by Program	Dollars in Millions
<b>Act 77 Programs:</b>	
Health Insurance for Adults - MAWD	\$ 63.2
Health Research	\$ 43.0
<i>Broad-Based Health Research *</i>	39.8
<i>Cancer Research</i>	3.2
Home and Community-Based Services	\$ 41.1
<i>Dept of Aging - Care Management</i>	32.2
<i>Dept of Public Welfare - Services</i>	8.9
Tobacco Use Prevention and Cessation	\$ 14.2
Hospital Uncompensated Care program	\$ 25.9
PACenet Transfer	\$ 25.3
<b>Other Health-Related Programs:</b>	
Medical Assistance - Long Term Care	\$ 121.7
Life Sciences Greenhouses	\$ 3.0
<b>Total</b>	<b>\$ 337.4</b>

\* Reflects the intended elimination of "non-formula" funding for health research under Section 906(2) and (3) of Act 77.

As in previous years, **the General Assembly amended the Fiscal Code to change the allocation provisions in the Tobacco Settlement Act so that \$124.7 million of tobacco money could be redirected** to the following health-related programs in the 2012/13 state budget – Medical Assistance Long Term Care (\$121.7 million) and Life Sciences Greenhouses (\$3 million).

The following tobacco money, which was redirected for the 2011/12 budget, will once again be redirected for 2012/13:

- all of the annual funding allocation for the Health Endowment Account;
- 33.3 percent of the annual funding allocation for Health Investment Insurance;
- 62.5 percent of the funding allocation for Tobacco Use Prevention and Cessation;
- 18.2 percent of the annual funding allocation for Hospital Uncompensated Care; and
- the strategic contribution payment received in 2011/12 that otherwise would be deposited in the Health Endowment Account

The 2012/13 budget also redirects a portion of the tobacco money for Health Research, marking the first time since Act 91 of 2002 that such money was redirected for another purpose. In his budget proposal, Gov. Corbett requested elimination of the entire tobacco funds allocation for health research to use these funds to offset the cost of long term care services in the Medical Assistance program. Instead, the General Assembly amended the Fiscal Code to redirect 30 percent of the annual funding allocation for health-related research under Sections 906(2) and (3) of the Tobacco Settlement Act. **Although the Fiscal Code language is rather ambiguous and arguably subject to interpretation, the intention was to redirect the specific CURE research funds known as “non-formula” funds.**

As the result of increased payments made by tobacco manufacturers in 2011/12, the Act 77 programs — other than Health Research — will receive more funding in 2012/13 than in the prior year. Tobacco revenues redirected to Life Sciences Greenhouses are the same as in prior years; however, revenues redirected to Medical Assistance Long Term Care are \$57.9 million less than the amount redirected in 2011/12. Money redirected to these two programs appear as appropriations under

the Tobacco Settlement Fund in the General Appropriation Act (Act 9A/SB 1466). Funds allocated to Act 77 programs are executive authorizations and do not require an appropriation.

*More detailed information on the Tobacco Settlement Fund will be provided in a separate budget briefing this summer available online at: [www.hacd.net](http://www.hacd.net).*

## **Department of Transportation**

**The state’s well-documented transportation funding shortfall is not addressed in the final 2012/13 budget.** Estimated by the Pennsylvania State Transportation Advisory Committee in May 2010, the \$3.5 billion funding gap is exacerbated by improved vehicle fuel economy (reduced tax revenue), but also by inaction due to the increased cost of construction for aging infrastructure.

In fact, the final 2012/13 budget includes \$4.13 billion in PennDOT funding, a decrease of \$316 million, or 7 percent. Due to declining federal funding, total transportation funding for Pennsylvania is reduced by \$535 million, or 8 percent. Approximately \$245 million of the reduction in federal aid reflects the discontinuance of funding made available from the American Recovery and Reinvestment Act (ARRA) of 2009.

The final 2012/13 budget makes available \$58 million for flood disaster relief by utilizing highway maintenance funds to cover the state-share of disaster recovery funding. PennDOT anticipates receiving \$35 million in federal disaster reimbursements.

The final 2012/13 budget discontinues a planned phase-out of \$200 million in Bridge Bond Funding, which financed the three-year accelerated bridge repair program, which repaired or replaced nearly 1,200 structurally deficient bridges between 2008 and 2010.

## **Victims of Juvenile Crime**

The final 2012/13 budget provides \$1.3 million to counties to fund Victims of Juvenile Crime services, despite Gov. Corbett’s proposal to eliminate the funding.

## **Violence Prevention Programs**

The final 2012/13 budget increases funding for Violence Prevention Programs by 10 percent, or

\$192,000, to \$2.1 million. According to the Fiscal Code, at least \$250,000 of the money appropriated to PCCD for Violence Prevention Programs shall be used for programs in a city of the 1st class (Philadelphia is the only city of the 1st class).

## **Voter ID**

The final 2012/13 budget includes a **\$1 million appropriation under the Department of Transportation to provide free photo identification cards** residents will need to comply with the Voter ID law that Gov. Corbett signed in March. The appropriation was **based on the Corbett Administration's estimate that approximately 1 percent** of the voting population lacked a valid photo ID to comply with the law.

However, one day after Gov. Corbett signed the final pieces of the budget package and on the eve

of a national holiday, **his administration announced that the actual number of registered votes lacking proper identification is actually closer to 10 percent, more than 758,000 voters affected.**

In light of this new estimate, **the voter ID appropriation is nearly \$7 million short.** The additional costs will be borne by the Department of Transportation, at the detriment of other critical activities in the Safety and Licensing Bureau. **The outreach effort to inform people about the new requirement will use approximately \$4 million in federal Help America Vote Act money,** but the amount available has been criticized as inadequate, especially given the need to advertise in larger media markets and given **the administration's admission that it significantly underestimated the number of people needed to be reached.**

### **House Appropriations Committee (D)**

Miriam A. Fox, Executive Director

#### **Budget Staff**

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**Tax Code - Act 85 of 2012 (HB 761)**  
**Revenue Gain (Loss) \$ in thousands**

<b>Tax Subject</b>	<b>Brief Summary</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
<b>Sales and Use Tax</b>			
<b>Egg Processing Exemption</b>	Provides a sales and use tax exemption for equipment used for the collection, washing, sorting, inspecting and packaging of eggs	\$ (300)	\$ (300)
<b>Volunteer Firefighters' Relief Associations</b>	Allows relief associations that have a sales tax exemption certificate to maintain that certificate. No renewal is necessary as long as the conditions of qualification are maintained.	\$ -	\$ -
<b>Wrapping and Packaging Supplies</b>	Provides clarification that wrapping and packaging supplies are exempt from sales and use tax when the property and wrapping are resold by the purchaser.	\$ -	\$ -
<b>Monthly Filing Requirements</b>	Provides an alternative payment option for sales tax remittance when sales from the previous year were higher than the current year.	\$ (4,900)	\$ (200)
<b>Personal Income Tax</b>			
<b>Joint Return for Surviving Spouse</b>	In the year that a spouse dies, the surviving spouse may file a joint return.	\$ -	\$ -
<b>Special Tax Provisions for Poverty</b>	Allows special tax provisions for poverty to be factored in when making estimated payments.	\$ -	\$ -
<b>Corporate Net Income Tax</b>			
<b>Single Sales Factor</b>	Provides for 100% sales factor apportionment on business income. Currently income is apportioned to PA using a formula of 90% sales, 5% property, and 5% payroll.	\$ (12,000)	\$ (38,000)
<b>Automatic Extension</b>	Provides for automatic extensions for filing returns when the federal government has granted an extension.	\$ -	\$ -
<b>Insurance Premiums Tax</b>			
<b>Technical Correction</b>	Changes the reference of "act" to "article" to provide proper applicability.	\$ -	\$ -
<b>Realty Transfer Tax</b>			
<b>Family Farm Exemption</b>	Excludes certain transactions from realty transfer tax when ownership of a family farm is transferred to a member of the same family.	\$ -	\$ -
<b>Stepparent/Stepchild Exemption</b>	Provides an exclusion from realty transfer tax when real property is transferred between a stepparent and stepchild of their spouse.	\$ -	\$ -
<b>Acquired Company Transactions</b>	Broadens the definition of "real estate company" and further provides for when a real estate company is acquired, which triggers application of the tax.	\$ -	\$ -
<b>Tax Credits</b>			
<b>Research and Development Tax Credit</b>	Moves the language from the fiscal code to the tax code, maintaining the current cap of \$55 million per year. Removes the sunset of the credit which was set to expire in 2015.	\$ -	\$ -
<b>Film Production Tax Credit</b>	Moves the language from the fiscal code to the tax code, maintaining the current cap of \$60 million per year. Expands the use of the credit to sound stages and provides for definitions and qualifications of such facilities and expenses. Also allows for carry forward of credits.	\$ -	\$ -
<b>Resource Manufacturing Tax Credit (Cracker Plant)</b>	Provides a tax credit of \$0.05 per gallon of ethane purchased for the production of ethylene at a qualified facility. A facility must make a construction investment of \$1 billion and 2,500 construction jobs. The credit is available for 26 years from the beginning of 2017 through the end of 2042. There is no annual or cumulative cap on the credits. Credits may be sold or assigned to another company, after giving first priority to downstream and upstream companies.	\$ -	\$ -
<b>Historic Preservation Incentive Tax Credit</b>	Allows for a tax credit against qualified expenses for the rehabilitation of historic structures. The annual cap is \$3 million.	\$ -	\$ (3,000)
<b>Community-Based Services Tax Credit</b>	Establishes a tax credit program for contributions made to a community-based service provider that provides services for mental and intellectual disabilities. The annual cap is \$3 million.	\$ -	\$ (3,000)

*Continued on page 18*

**Tax Code Changes Continued from page 17**

<b>Tax Subject</b>	<b>Brief Summary</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
<b>Tax Credits (continued)</b>			
<b>Job Creation Tax Credit</b>	Moves the language from the fiscal code to the tax code, maintaining the current cap of \$10.1 million. Changes the definition of small business to those with fewer than 100 employees. Increases the per-job credit from \$1,000 to \$2,500 if the new job is filled by an unemployed individual.	\$ -	\$ -
<b>Neighborhood Assistance Tax Credit</b>	Allows applicability of credits with regard to "charitable food programs".	\$ -	\$ -
<b>Eudcational Improvement Tax Credit</b>	Expands the annual cap on the current EITC from \$75 million to \$100 million per year. Also increases the total amount of credits allowed to each taxpayer, as well as increasing the income limits of participating families.	\$ (25,000)	\$ (25,000)
<b>Educational Opportunity Scholarship Tax Credit</b>	Establishes a new tax credit program for entities that provide contributions to scholarship organizations with regard to students in low-achieving schools. The annual cap on this program is \$50 million.	\$ (50,000)	\$ (50,000)
<b>Inheritance Tax</b>			
<b>Family Farm Exemption</b>	Provides for the transfer of a family farm to members of the same family so that the family is not subject to inheritance tax.	\$ (2,400)	\$ (5,500)
<b>Cigarette Tax</b>			
<b>Cigarette Tax</b>	Changes the number of retail outlets that a wholesaler may operate from no fewer than five to no fewer than three.	\$ -	\$ -
<b>Tax Appeals</b>			
<b>Petitions for Review</b>	Provides changes to petition for reassessment to allow challenges to tax adjustments in cases that do not result in an increase in tax liability but may increase the tax due in a subsequent year.	\$ -	\$ -
<b>Compromise by Secretary</b>	Allows a taxpayer to propose a compromise of the amount of liability for tax under the basis of doubt as to liability and the promotion of effective tax administration.	\$ -	\$ -
<b>Petition Procedure</b>	Requires that a petition for reassessment must state the basis upon which the taxpayer claims the adjustment of a tax item is erroneous.	\$ -	\$ -
<b>Administration and Enforcement</b>			
<b>Nonemployer Income</b>	Requires nonemployers of independent contractors to file a copy of form 1099-MISC with the Department of Revenue if they are required to file that federal form with the IRS. Also requires companies making payments of oil or gas lease or royalty payments to file a copy of federal form 1099-MISC with the Department of Revenue.	\$ -	\$ -
<b>Administrative Bank Attachment</b>	Allows the Department of Revenue to attach bank accounts of delinquent taxpayers and provides for administrative process of the system.	\$ 4,300	\$ 8,000
<b>Certified Mail Requirement</b>	Eliminates the requirement that assessments be sent via certified mail.	\$ 750	\$ 750
<b>Net Revenue Loss</b>		<b>\$ (89,550)</b>	<b>\$ (116,250)</b>

**Note on Future Year Fiscal Impact - Resource Manufacturing Tax Credit**

The Resource Manufacturing Tax Credit has no annual or cumulative cap and therefore is unlimited. The amounts of tax credits awarded are based on purchases of qualifying companies, and therefore the commonwealth has no control over the total amount that might be awarded in future years. It is unknown how many companies might be built or qualify for this credit between 2017 and 2042, and therefore the total amount of purchased ethane and the corresponding tax credit cannot be estimated at this time. Tax credits may be sold or transferred. Therefore if a qualifying company has no tax liability, it can still take advantage of the credit by selling it.

# Understanding General Fund Financial Statements

## Beginning Balance

Equals the ending balance from the previous year. Surplus funds that were available at the end of the previous year because either the money was not spent, not appropriated and/or revenues exceeded the official estimate at the end of the previous year. *The 2011/12 fiscal year began with a large beginning balance partly because revenues were \$785.5 million above estimate at the end of 2010/11, and Gov. Corbett required spending freezes of \$181.5 million in the 2010/11 fiscal year.*

## Adjustment to Beginning Balance

Added to beginning balance. Represents changes that happen after the books were closed for the year and interest earned on surplus money.

## 2012-13 BUDGET GENERAL FUND FINANCIAL STATEMENT

- Preliminary Final -

(amounts in thousands)

	2011-12 Available	2012-13 Budget
Beginning Balance.....	\$1,072,863	\$659,051
Adjustment to Beginning Balance.....	19,700	---
Adjusted Beginning Balance.....	\$1,092,563	\$659,051
<b>Revenue:</b>		
Revenue Estimate.....	\$27,840,836	\$28,590,000
Adjustment to 2011-12 Estimate.....	(162,837)	---
Subtotal Revenue.....	\$27,677,999	\$28,590,000
Less: Refunds .....	(1,275,000)	(1,300,000)
Total Revenue.....	\$26,402,999	\$27,290,000
Prior Year Lapses.....	194,028	---
Funds Available.....	\$27,689,500	\$27,949,051
<b>Expenditures:</b>		
Appropriations.....	\$27,165,635	\$27,656,381
2011-12 Supplemental Appropriations.....	20,018	---
Less: Current Year Lapses.....	(155,114)	---
Total Expenditures.....	\$27,030,539	\$27,656,381
Preliminary Balance.....	\$659,051	\$292,670
Less: Transfer to Budget Stabilization Res. Fund (25%).....	0	(73,168)
<b>Ending Balance</b> .....	<b>\$659,051</b>	<b>\$219,502</b>

## Revenue Estimate

Official revenue estimate provided by the governor, which is updated at the beginning of the fiscal year. *The 2012/13 estimate includes statutory changes enacted in the Tax Code bill (Act 85/HB 761) and Fiscal Code (Act 87/SB 1263). The net effect of those changes in 2012/13 is a revenue increase of approximately \$10 million resulting from an estimated \$90 million loss in the Tax Code (mostly due to tax credit programs) and an increase in revenue of \$100 million in the Fiscal Code for enhanced revenue collections.*

## Adjustment to 2011/12 Estimate

Added or subtracted from Revenue Estimate. Represents the difference between actual revenues at year end and the official revenue estimate produced at the beginning of the fiscal year. In other words, how far above or below estimate revenue is at the end of the year. *When the Governor's Executive Budget was released in February he estimated this number to be approximately \$719 million below estimate. Even though actual revenues were below estimated revenues (\$162.8 million), the actual revenues were still higher than the previous year.*

## Refund Reserves

Subtracted from Subtotal Revenue. Represents the amount kept as a reserve to pay refunds to taxpayers who paid more taxes than they owed and who receive a payment from the commonwealth when they file their tax returns.

## Prior Year Lapses

Appropriations or executive authorizations that went unspent in the prior year are carried forward and are added to available revenue to be spent in the subsequent year.

## Funds Available

Equals Total Revenue plus Prior Year Lapses. This is the amount of state General Fund money that is available to be spent as appropriations or executive authorizations.

## Current Year Lapses

This represents money that was appropriated but not spent during the same year. Typically this is a result of agencies not being able to use all of their appropriations. Recently this has changed such that current year lapses represent budgetary freezes ordered by the governor. In January 2012 Gov. Corbett required agencies under his jurisdiction to freeze spending in specified areas, not allowing them to utilize the full budgeted appropriation. *This money is subtracted from expenditures, reducing the amount spent in the 2011/12 fiscal year to allow money to roll over for the next year to begin with a more favorable beginning balance.*

## Supplemental Appropriations

Spending that occurred in the 2011/12 fiscal year that was higher than the amount appropriated requires an appropriation in the 2012/13 appropriations act. *Supplemental appropriations are typically associated with mandated education or public welfare programs where caseload demands affect costs that cannot be predicted at the time the budget is enacted. This amount is added to expenditures.*

## Preliminary Balance

Equals Funds Available minus Total Expenditures. *This is the amount "left on the table" so to speak, which could have been used for additional appropriations (\$659.1 million in the 2012/13 fiscal year).*

## Transfer to Budget Stabilization Fund (Rainy Day Fund)

This represents the 25% transfer to the Rainy Day Fund that is required by statute in the Fiscal Code and is calculated as 25% of the Preliminary Balance. *Act 87/SB 1263 of 2012 suspended the transfer for the 2011/12 fiscal year. The transfer would have been \$164.7 million in 2011/12 if the transfer had not been suspended.*

## Ending Balance

Equals Preliminary Balance minus any transfer to the Rainy Day Fund. This amount is carried forward to the next fiscal year as the beginning balance.