



## Untangling 2013/14 PA Budget Revenue & Expenditures

A few hours before midnight on June 30, Gov. Corbett signed the General Appropriations bill (Act 1A/HB 1437), providing \$28.375 billion in state fund expenditures for 2013/14. The budget spends an additional \$645 million (2.3 percent) as compared to 2012/13. The governor signed other aspects of the budget on July 9, but has yet to sign the Fiscal Code and Non-Preferred Appropriations as of the date of this publication.

This document provides an overview of income and expenditures included in the 2013/14 state budget. More detailed information about funding for specific agencies and programs is available online at [www.hacd.net](http://www.hacd.net).

### 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 before midnight on June 30 to ensure funding for critical programs continues. The new fiscal year begins on July 1.

The fiscal year 2013/14 budget includes the following:

- **General Appropriations (Act 1A/HB 1437)** - Signed by the governor on June 30.
- **Fiscal Code (SB 591)** - Awaiting the governor's signature.
- **Public School Code (Act 59/HB 1141)** - Signed by the governor on July 9.
- **Public Welfare Code (Act 55/HB 1075)** - Signed by the governor on July 9.
- **Non-Preferred Appropriations (SBs 725-729)** - Awaiting the governor's signature.
- **Tax Code (Act 52/HB 465)** - Signed by the governor on July 9.

Please note: The 2013/14 financial statement is not available as of the date of this publication. We will update this document when the financial statement is available.

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## Overview

Pennsylvania's spending plan for 2013/14 includes a **total of about \$66 billion in state and federal funds.**

Of the \$66 billion, approximately \$52.6 billion in state and federal funds require legislative appropriation each year, while the remaining \$14 billion are governed by existing statutes. Total 2013/14 appropriations enacted are as follows:

- With the passage of the General Appropriations Act (HB 1437, now Act 1A of 2013), the General Assembly enacted \$27.8 billion in General Fund preferred appropriations.
- Another \$547.3 million in non-preferred appropriations are awaiting final signatures, which along with \$11.6 million in Executive Authorizations will bring the General Fund total to \$28.37 billion in state dollars.
- Also passed as part of the General Appropriations Act were \$20.5 billion in federal appropriations and \$3.35 billion in state special fund appropriations.
- "Housekeeping" legislation appropriated another \$326.5 million from other special funds and restricted receipt accounts.

## General Fund - Funds Available to Spend

In addition to the estimate of tax and non-tax revenues collected by the General Fund, other factors affect the ending balance of the General Fund for 2012/13, and consequently, the amount of funds available to spend in the upcoming fiscal year.

The financial statement makes adjustments for the amount of tax refunds that must be paid back to taxpayers, the amount of unspent funds lapsed from prior years, any revenue surplus or deficit, or supplemental appropriations. Out of that remaining balance, 25 percent is to be transferred into the Rainy Day Fund, unless the transfer is suspended.

A financial statement for the budget has not yet been released, meaning many of the moving pieces that influence the amount available to spend for

2013/14 remain unknown. While the Secretary of the Budget and the Secretary of Revenue have issued an official revenue estimate, even that may be revised further to reflect provisions in the Fiscal Code, currently awaiting the governor's signature.

## General Fund Revenues

The official revenue estimate for the 2013/14 fiscal year, as certified by the Corbett administration, is \$29.022 billion. Total General Fund revenues are expected to increase by \$375.2 million (1.3 percent). The following table shows the General Fund revenue sources and their expected growth.

Revenue Category (\$ in Millions)	2013/14 Estimate	\$ Change	% Change
Corporation Tax Total	\$4,961	\$(229.1)	-4.4%
Corporate Net Income Tax	\$2,470	\$46.5	1.9%
Capital Stock & Franchise Tax	\$311	\$(291.7)	-48.4%
Other Corporation Taxes	\$2,180	\$19.6	0.9%
Sales Tax	\$9,219	\$324.9	3.7%
Cigarette Tax	\$996	\$(28.4)	-2.8%
Malt Beverage Tax	\$26	\$0.8	3.4%
Liquor Tax	\$327	\$16.0	5.1%
Personal Income Tax	\$11,699	\$327.4	2.9%
Realty Transfer Tax	\$399	\$60.3	17.8%
Inheritance Tax	\$878	\$32.7	3.9%
Table Games	\$93	\$4.4	5.0%
<b>Total Tax Revenue</b>	<b>\$28,562</b>	<b>\$495.2</b>	<b>1.8%</b>
<b>Total Non-Tax Revenue</b>	<b>\$460</b>	<b>\$(120.1)</b>	<b>-20.7%</b>
<b>Total General Fund</b>	<b>\$29,022</b>	<b>\$375.2</b>	<b>1.3%</b>

## Revenue Changes

Act 52 of 2013 (HB 465) contains numerous changes to the Tax Reform Code, with a **net increase to the General Fund of \$51.6 million.** Highlights of Act 52 are listed in the table on the following page, with a complete list of tax code provisions on Pages 18-20.

The most significant provision of the Tax Code, as it affects the General Fund for the 2013/14 fiscal year, is the **extended phase-out of the capital stock and franchise tax.** The rate for the current 2013 tax year is 0.89 mills. The tax was scheduled to be eliminated starting in tax year 2014, but Act 52 extended the phase out for an additional two years. The tax rate will now be 0.67 mills for tax year 2014 and 0.45 mills in 2015, with the tax being eliminated thereafter.

## Tax Code (Act 52/HB 465) Highlights

Revenue Gain (Loss) \$ in Millions

Tax Type	Description of Change	2013/14 General Fund Impact
Sales and Use Tax	Repeal of call center tax credit.	\$0.5
Sales and Use Tax	Aircraft parts and service sales tax exclusion.	\$(3.7)
Personal Income Tax	S-Corp, LLC and partnership filing and compliance changes for the personal income tax.	\$2.6
Personal Income Tax	Expensing or amortization of intangible drilling costs.	\$(1.1)
Corporate Net Income Tax	Market-based sourcing for sales apportionment factor - sourcing sales to where the customer gets the benefit.	\$7.0
Corporate Net Income Tax	Requires companies to add back intangible expenses and costs to taxable income, including associated interest expense. The adjustment does not apply to transactions that did not have as the principal purpose the avoidance of tax and was done at arm's length and terms. This provision is intended to help close some of the Delaware loophole.	\$0.0
Corporate Net Income Tax	Apportionment formula change for satellite television services.	\$(0.6)
Corporate Net Income Tax	Increase net operating loss deduction cap to greater of \$4 million or 25% for tax year 2014, and \$5 million or 30% for tax year 2015 and thereafter.	\$(11.4)
Capital Stock and Franchise Tax	Modified capital stock and franchise tax phase out schedule to 0.67 mills for tax year 2014, 0.45 mills for tax year 2015 and elimination thereafter.	58.4
Bank Shares Tax	Comprehensive re-write of the bank shares tax to adjust for changes in the industry.	\$(0.6)
Realty Transfer Tax	Eliminates the realty transfer tax 89/11 loophole.	\$4.3
Non-licensed Corporation Pari-mutuel Wagering Tax	Establishes a new 10% tax on advance deposit account wagering on horse races in Pennsylvania. Up to \$5 million will be transferred from the General Fund to a restricted account for the State Racing Commission, and amounts over \$5 million in 2013/14 will be transferred to the PA Race Horse Development Fund.	-
Inheritance Tax	Excludes the transfer of all business assets between members of the same family, as long as the business interest continues to be owned for at least 7 years following the decedent's death.	\$(3.8)
<b>Total General Fund Impact</b>		<b>\$51.6</b>

### 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 implemented in the Fiscal Code.

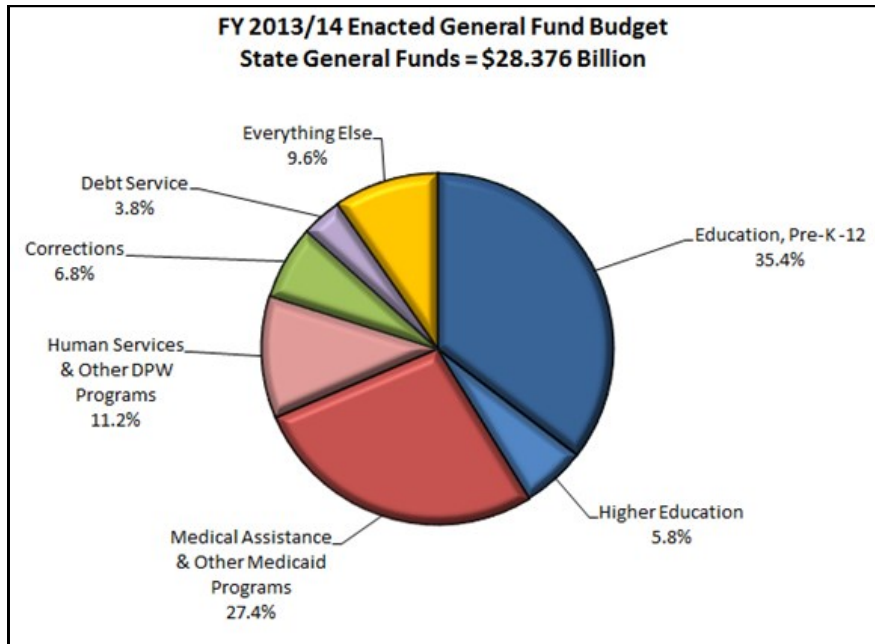
Without suspension of current law, General Fund surpluses (revenue less expenditures) for the last several years would have triggered an annual 25

percent transfer to the Rainy Day Fund.

Please note: The financial statement is not yet available to determine how much revenue would have been deposited into the Rainy Day Fund based on the 2012/13 fiscal year surplus.

## General Fund - Expenditures By Program Area

The chart below shows a breakout of the \$28.37 billion General Fund by broad spending categories.



The \$130 million increase in the basic education subsidy payments to school districts will be driven out through a series of smaller subsidies within the formula. The largest portion of the increase, \$100 million, is appropriated using a formula consisting of student count and market value/aid ratio of each district. The remaining \$30 million is appropriated using 12 separate calculations designed to drive funds specifically to 21 school districts.

Despite Gov. Corbett's attempt to increase the **special education** contingency fund by cutting school district and intermediate unit funding by 0.5 percent, the final budget flat-funds the appropriation at \$1.026 billion and ensures that all entities receive the same amount as in 2012/13. The special education contingency fund is designed to provide extra payments for extraordinary special education expenditures. Currently,

a Special Education Commission is working to devise a new special education formula to more adequately address the funding necessary to

## Education

### Department of Education

#### K-12

Overall, the enacted budget increases the Department of Education's (PDE) total funding from \$9.77 billion in 2012/13 to \$10.04 billion in 2013/14, which is an increase of \$266 million (2.7 percent). Of this increase, \$173 million is necessary to fulfill statutorily mandated payments, such as pupil transportation, retirement and early intervention.

The **basic education subsidy**, the largest appropriation in the education budget, drives out an additional \$130 million (2.4 percent) to school districts through the basic education formula. However, the budget only increases the actual basic education appropriation by \$122.5 million (2.3 percent), for total funding of \$5.526 billion. The \$7.5 million difference will be comprised of monies used from PDE's unencumbered funds.

A school district printout is available online at: [www.hacd.net](http://www.hacd.net).

### \$1 Billion in Cuts to Classroom Funding Remains Largely in Place

Despite the increase in education funding, the nearly \$1 billion in cuts to classroom funding enacted in Gov. Corbett's first budget remains largely in place.

Republicans attempt to include non-classroom education funding the state is required to pay school districts (e.g. transportation and pensions) to give the impression that the state is providing record K-12 funding. However, if you consider the five major subsidies, state funding for school districts remains lower than 2008/09, which was the fiscal year prior to the federal stimulus money.

Keep in mind, for several years, the state chose not to make its pension payments. Now that the state is required to make its payments (under Act 120), the governor is counting those artificially higher pension payments as funding to classrooms.



provide special education to commonwealth students. The commission's report is due in late fall of 2013.

**Distressed school districts** receive only a small portion of the basic education subsidy increase. In total, the eight distressed districts receive \$10.9 million, with \$9.4 million of the increase going to the Reading and York City school districts. **A list of the funding for distressed school districts is available online at: [www.hacd.net](http://www.hacd.net).** In addition, roughly \$10.3 million is available in the Financial Recovery School Transitional Loan Accounts for distressed schools and another \$4.5 million will be available to PDE to provide technical assistance.

Of the **early childhood initiatives** within PDE's budget:

- **Accountability Block Grant** receives flat-funding at \$100 million;
- **Pre-K Counts** increases by \$4.5 million (5.4 percent); and
- **Head Start Supplemental Assistance** increases by \$1.9 million (5.1 percent).

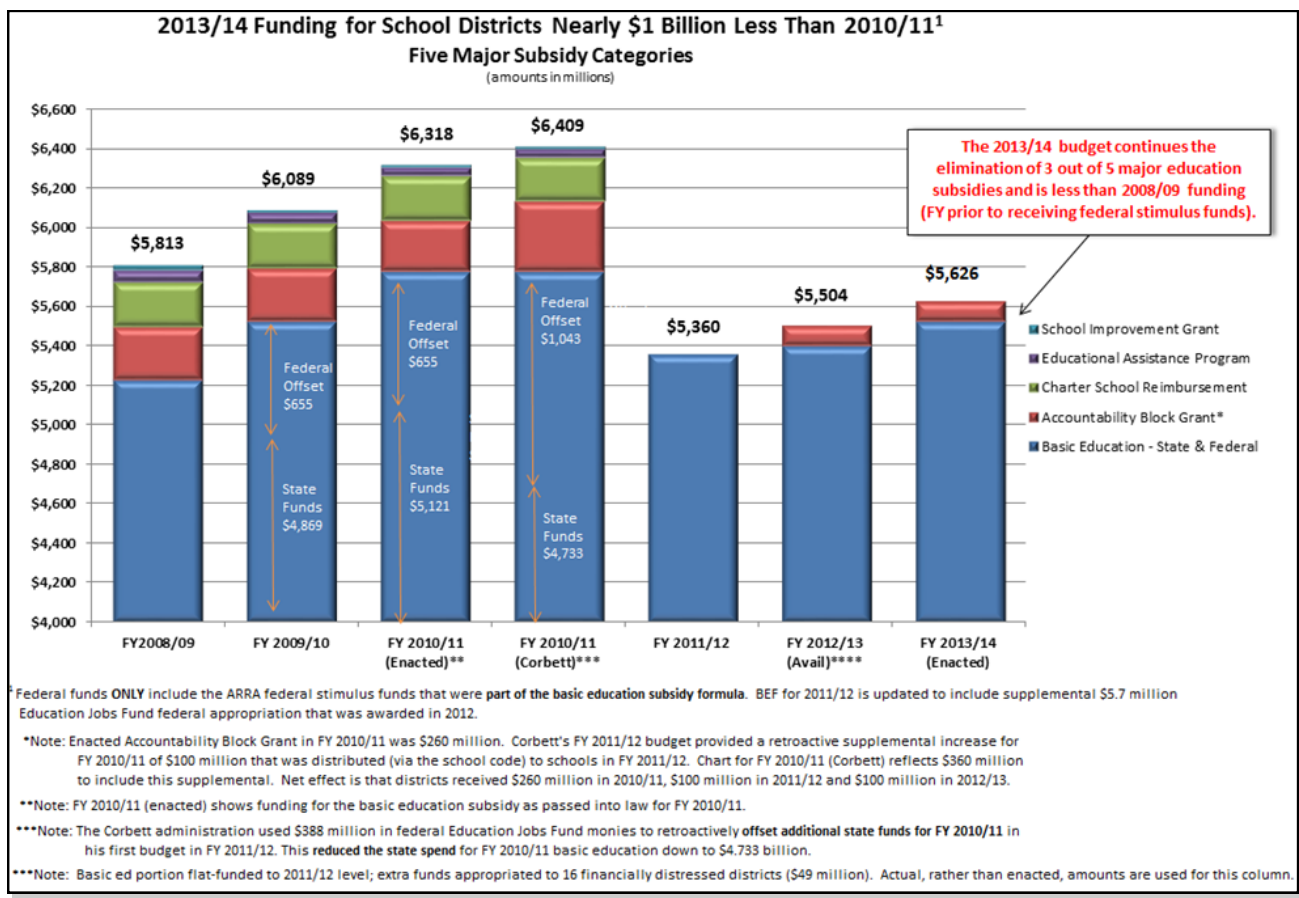
The enacted **budget provides a \$5 million (2.3 percent) increase for Early Intervention**, a federally mandated program required to serve all eligible students.

For the third budget in a row, no funding is included for Dual Enrollment, Reimbursement of Charter Schools, Educational Assistance Program, Science: It's Elementary, School Improvement Grants or Intermediate Units.

The enacted **budget flat-funds the Public Library** subsidy at \$53.5 million.

The **budget increases the Safe Schools Initiative by \$6.5 million (321.5 percent)**, for total funding of \$8.5 million. The funding provides targeted grants to schools and municipalities to address school violence and safety issues.

While the **budget flat-funds Career and Technical Education (vo-tech)** at \$62 million, it creates a new \$3 million appropriation for equipment grants. This competitive grant program is available to vo-tech schools and school districts that operate vo-tech programs.



The **budget flat-funds PlanCon at \$296.2 million**, and for the second year a moratorium is in place to stop funding approval of additional school construction projects. PlanCon, funded through the Authority Rentals and Sinking Fund Requirements appropriation, is a statutorily mandated reimbursement to school districts for a portion of their capital expenditures and to charter schools for the cost of leased facilities. Under this moratorium, approximately 230 school building projects will remain unfunded.

The enacted **budget provides \$50 million for the Educational Opportunity Scholarship Tax Credit**, also known as “voucher-lite”. The program affords tax credits to businesses that contribute to scholarship organizations for the purpose of providing school vouchers to students in low-achieving public school districts. Students receiving these vouchers may attend public or private/parochial schools. The tax credit program was first enacted in 2012/13 and continues unless a change is made to the Tax Code. In 2012/13, only \$20 million of the \$50 million was utilized by businesses. To date, no data is available on the number of students who received vouchers and which school each student attended.

The **budget continues the Educational Improvement Tax Credit (EITC) at \$100 million**, the same level available in 2012/13. This program awards tax credits to businesses that make contributions to scholarship organizations, educational improvement organizations and Pre-K scholarship organizations.

A more in-depth education funding briefing will be available this summer at: [www.hacd.net](http://www.hacd.net).

The enacted budget provides Pennsylvania Higher Education Assistance Agency (PHEAA) grants with \$344.88 million, the same amount as 2012/13. PHEAA is again expected to contribute \$75 million of its business earnings to supplement the state appropriation.

In addition, PHEAA plans to contribute \$5 million to the PA-TIP (Targeted Industry Program), which provides grants to students for industry certificate programs less than two academic years in length. This amount is the same as 2012/13. PHEAA also plans to use \$10 million of its earnings for a distance education pilot program, to provide grants to students using distance or online learning who are unable to receive a regular PHEAA grant under the current guidelines.

Increases for higher education include the following:

- Pennsylvania College of Technology (part of Penn State) receives \$15.58 million, a \$2 million increase (14.7 percent).
- Rural education outreach (under the University of Pittsburgh) receives \$2.3 million, a \$217,000 increase (10.4 percent).
- Lincoln University receives \$13.16 million, a \$2 million increase (17.9 percent).
- Community college capital funding increases by \$1 million (2.1 percent) to \$48.87 million.
- Community education councils receive \$2.3 million, an increase of \$500,000 (27.8 percent).
- Pennsylvania Internship Program Grants, a new appropriation created under PHEAA, receives \$350,000.

## Higher Education

For the most part, the 2013/14 budget provides level funding for higher education as compared to 2012/13. The budget provided additional funding for some relatively smaller appropriations. Overall, increases to the higher education budget totaled just over \$6 million.

State Funding for Higher Education 2011/12 to 2012/13 & as Compared to 2010/11						
<i>(\$ in Thousands)</i>	2011/12 (Actual)	2012/13 (Available)	2013/14 (Budget)	Budget Less 2012/13	% Change	% Change from 2010/11
Community Colleges	\$212,167	\$212,167	\$212,167	-	0.0%	-10.0%
State System of Higher Education	\$412,751	\$412,751	\$412,751	-	0.0%	-18.0%
Penn State University	\$216,309	\$227,694	\$229,694	\$2,000	0.9%	-18.3%
University of Pittsburgh	\$129,272	\$136,076	\$136,293	\$217	0.2%	-18.9%
Temple University	\$132,921	\$139,917	\$139,917	-	0.0%	-19.0%
Lincoln University	\$10,605	\$11,163	\$13,163	\$2,000	17.9%	-4.5%
Thaddeus Stevens	\$10,332	\$10,332	\$10,332	-	0.0%	-5.0%

## **Pensions**

The General Assembly did not pass any legislation to change the state's current pension systems. Actuaries – experts in analyzing costs, risks and uncertainty of pensions plans – reviewed the governor's plan (as contained in House and Senate bills), as well as other reform proposals. The proposals contained the same basic premise to: create a new 401(k)-style defined contribution plan for all new employees, which would effectively close the state's two defined benefit plans. The actuarial experts concluded that closing the state's defined benefit plans would cost taxpayers tens of billions of dollars more; therefore, the legislature wisely tabled these costly and imprudent policy proposals.

### **State Employees' Retirement System (SERS)**

The final 2013/14 budget includes approximately \$644 million in mandated state-paid employer contributions for state employees' retirement for agencies under the governor's jurisdiction, pursuant to Act 120 of 2010. This is an increase of \$177 million (35 percent).

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

The final 2013/14 budget includes \$1.017 billion in mandated state-paid employer contributions for public school employees' retirement, pursuant to Act 120 of 2010. This is an increase of \$161 million (19 percent).

## **Health & Human Services**

### **Department of Public Welfare**

The final budget appropriates \$10.956 billion in state General Fund revenue for the Department of Public Welfare (DPW) in 2013/14. General Fund monies account for about one-third of DPW's total spending. The balance is comprised of federal funds (primarily Medicaid matching funds), special funds (namely Lottery Fund and Tobacco Settlement Fund) and other revenue (largely assessments collected from Medicaid providers such as hospitals, nursing facilities and managed care organizations).

The **2013/14 state General Fund appropriation represents an increase of \$334 million from DPW's 2012/13 budget** (which included a \$37 million supplemental appropriation increase) and a

decrease of \$14 million from Gov. Corbett's 2013/14 Executive Budget request. However, **House Democratic Appropriations Committee analysis of the enacted DPW budget indicates that several funding maneuvers were used to reduce 2013/14 General Fund spending by \$86 million.** In other words, without the following funding gimmicks, DPW would have required an additional \$86 million of General Funds beyond what was appropriated in its 2013/14 budget:

- \$50 million of unspent 2012/13 General Fund appropriations were used to pay for 2013/14 Medical Assistance (MA) expenditures. Specifically, \$35 million of MA-Capitation expenditures were rolled back to 2012/13 and \$15 million of MA-Outpatient expenditures were rolled back to 2012/13.
- \$36 million of Home and Community Based Services expenditures were shifted "offline" to an alternative funding source.

### **Medical Assistance**

State spending for the five major Medical Assistance appropriations - MA-Capitation, MA-Outpatient, MA-Inpatient, MA-Long-Term Care and Payment to Federal Government for Medicare Part D – total \$5.743 billion, which is an increase of \$110 million over 2012/13. (Please note, the increase would be \$210 million were it not for the expenditure "rollbacks" described above in the appropriation for MA-Capitation and MA-Outpatient services.)

The enacted 2013/14 budget includes sufficient funds for increased provider payments:

- Rates paid to physical health managed care organizations (funded through the MA-Capitation appropriation) increase by a statewide average of at least 2 percent.
- Rates paid to behavioral health managed care organizations (also funded through the MA-Capitation) increase by a statewide average of at least 1.5 percent.
- Per diem rates paid to nursing facilities (funded through the MA-Long-Term Care appropriation) increase by 2 percent.
- One-time incentive payments totaling \$8 million are provided to qualified non-public nursing facilities (funded through the MA-Long-Term Care appropriation).

## Disability Programs

State funding increases \$128.7 million compared to 2012/13 for the following home and community-based programs that serve Pennsylvanians with disabilities: **Intellectual Disabilities (ID) - Community Waiver Program** (\$94.9 million); **Services to Persons with Disabilities** (\$26 million); **Attendant Care** (\$5.2 million); and **Autism and Intervention Services** (\$2.6 million). The budget reflects the expanded services requested by Gov. Corbett so an additional 2,978 Pennsylvanians may enroll in the waiver programs during 2013/14, as detailed below.

- **ID-Community Waiver Programs** includes \$19.867 million to provide services for 1,180 individuals with intellectual disabilities, including: 380 people on the county emergency waiting list, 700 graduates from special education programs and 100 people who currently reside in a state ID center.
- **Services for Persons with Disabilities** includes \$15.8 million to expand services to 1,282 people who have a severe physical disability, including people with traumatic brain injuries.
- **Attendant Care** includes \$4.1 million to expand services to an additional 400 disabled adults.

## Mental Health

The enacted 2013/14 budget includes additional state funds to move 90 residents from the state mental health hospitals into the community. Funding for these community placements is provided through the Mental Health Services appropriation, which funds the state hospitals operated by DPW and grants to counties for community programs. **State funding for Mental Health Services increases by \$28.2 million** in 2013/14:

- **\$23.4 million is for the state mental hospitals**, primarily for increased personnel costs to operate the six hospitals operated by DPW.
- **\$4.7 million is for community placements for 90 hospital residents**. When patients are discharged from the state mental hospitals, DPW closes hospital beds and transfers state hospital funds to the county mental health program. This funding – referred to as CHIPP (Community Hospital Integration Projects Program) funding – will go to specific counties that take these residents and will not be block-granted in 2013/14. However, it will become part of county funding that may be block-granted beginning in 2014/15.

### Public Welfare Code includes several provisions necessary to implement and balance DPW's 2013/14 budget:

- Extension of the **statewide hospital assessment**, known as the Quality Care Assessment, through June 30, 2016. The state share of assessment revenue, which helps to pay for MA Inpatient services in lieu of using General Fund revenue, is \$150 million in 2013/14.
- Extension of the **Philadelphia hospital assessment** through June 30, 2014. Revenue generated from this assessment is used to help pay for MA Outpatient services, saving the state General Fund approximately \$40 million in 2013/14.
- Extension of the **assessment on Intermediate Care Facilities for the Intellectually Disabled (ICF/ID)** through June 30, 2016. Revenue generated from this assessment, which is levied on the public ICFs/ID (the state ID centers) and the private ICFs/ID, augments General Fund spending required for institutional care provided to individuals with intellectual disabilities. This assessment is anticipated to save the state a total of \$39 million in 2013/14: \$19.842 million for private ICFs/ID and \$18.017 million for the state ID centers.
- Extension of the **budget adjustment factor (BAF) for nursing facility rates** through June 30, 2016. The BAF serves to cap the MA per diem rates paid to nursing facilities to the amount appropriated in the budget, thereby containing the growth in state expenditures. Without the BAF, DPW would have to pay nursing facilities higher per diem rates in accordance with existing regulations that use a case-mix payment methodology for determining rates paid yearly to individual facilities.
- Expands the **Human Services Block Grant Pilot Program** from 20 counties to 30 counties. In selecting counties for the pilot program, DPW must consider certain factors such as the county's geographic location, population and human services administrative structure. DPW shall give priority to those counties that have participated in the pilot or applied to participate in the pilot.



- No additional state funds are budgeted for the county mental health base program. Funding for this program, which may be block-granted under the Human Services Block Grant Pilot Program, maintains the 10 percent cut (worth \$55 million) enacted in 2012/13.

### Human Services

Although the General Assembly rejected Gov. Corbett's recommendation to turn the 20-county Human Services Block Grant pilot program into a statewide pilot program – opting instead to increase the number of pilot counties to 30 – the enacted 2013/14 budget maintains the 10 percent funding cut (worth \$84 million) enacted in 2012/13 for the following **county-run human services programs**:

- Community mental health services (funded through the Mental Health Services appropriation);
- Community intellectual disability base program;
- Behavioral health services (funds mental health services and drug and alcohol treatment);
- Act 152 drug and alcohol treatment services (funded through the MA Outpatient appropriation);
- County child welfare special grants (funded through the County Child Welfare appropriation);
- Homeless assistance; and
- Human services development fund.

The enacted budget includes increases for **Domestic Violence** (additional \$1.3 million) and **Rape Crisis** (additional \$950,000) programs, as proposed by the governor. However, please note that federal and other sources of funding for these programs have decreased significantly in recent years; therefore, even with these additional state funds, organizations struggle to meet the need for services.

### Administrative Supports

The enacted budget increases most appropriations relating to Department of Public Welfare

operations. These increases were largely due to personnel calculations and/or anticipated caseload increases along with other necessary costs that can be attributed to implementation of the federal Affordable Care Act (ACA).

### Economic Supports

The enacted budget decreases state funding for **Cash Grants** by \$4 million (6.6 percent) when compared with 2012/13 levels and the governor's 2013/14 request. It is unclear whether this cut is related to revised caseload projections or changes to other components of the program. The **Supplemental Grants – Aged, Blind and Disabled** appropriation increases by \$3 million (2.2 percent) reflecting the latest caseload projections.

### Services for Children

Compared with 2012/13, the enacted budget increases funding for **County Child Welfare** by \$15 million (1.4 percent). This is more than \$8 million less than the governor's request, which reflected the county needs-based budget process. It is unclear if this cut will impact the counties or if it can be absorbed using unspent funds from the prior year.

The enacted budget includes an additional \$14.3 million for **Child Care Services**. This appropriation provides child care subsidies for low-income working families and early childhood quality improvement initiatives (such as Keystone STARS). The final budget amount reflects the governor's revised budget request for 2013/14. The components of his request were as follows: \$3.7 million to replace federal sequestration cuts without impacting services; \$7 million to provide services to an additional 1,376 children on the waiting list; \$3 million for the Rising STARS initiative within the Keystone STARS program; and \$3.5 million for an unspecified early learning quality improvement initiative.

The enacted budget cuts funding for **Child Care Assistance** by \$4 million (2.6 percent) reflecting a full-year of cost-savings initiatives from 2012/13. This appropriation provides services for families receiving public assistance.

## Department of Health

As part of his executive budget proposal, Gov. Corbett recommended consolidating the commonwealth's 60 state health centers into 36, as well as making changes in district offices. He anticipated that this plan would result in 73 layoffs (including 26 community health nurses). The enacted budget assumes this plan and, in fact, funds **State Health Care Centers** at a lesser amount than the governor recommended in February.

Gov. Corbett recommended an additional \$1 million under the **Primary Health Care Practitioner** appropriation for an initiative to "expand access to community health care." The appropriation is \$1 million less than the governor proposed, suggesting that this initiative was not accepted by the General Assembly.

The enacted budget includes \$4 million for a **Community Based Health Care Subsidy** program, as proposed by Gov. Corbett. Act 10 of 2013 (SB 5) established the Community-Based Health Care Program in the Department of Health.

The department's budget also includes **numerous health grant appropriations** to fund research, prevention, treatment and education. Activities in these appropriations can help keep patients out of more costly health care settings. The enacted budget restores funding cuts under the governor's original proposal, and in some cases funds these appropriations at levels higher than 2012/13.

## Insurance Department

The enacted budget provides \$22.3 million for **Insurance Department operations** within a new Insurance Regulation and Oversight Fund, created by Act 46 of 2013 (SB 914). This represents an increase of \$4.4 million (24.4 percent) over 2012/13 levels for department operations. Prior to SB 914, all fees and fines collected by the department were deposited into the General Fund and the department's operations were appropriated in that section of the General Appropriations Act. Now, a portion of collected fees and fines will be deposited into the new Fund within which department operations will then be appropriated annually. Per provisions in Act 46, excess funds will be returned to the General Fund at the end of each fiscal year.

The enacted budget increases state funding for the **Children's Health Insurance Program (CHIP)** by \$9.5 million (9.3 percent) over 2012/13. By comparison, Gov. Corbett's executive budget proposal increased funding by \$13.5 million (13 percent). That amount included an additional \$1 million for outreach activities and funding to cover the additional children enrolled as a result of these activities. Unfortunately, CHIP enrollment has declined by thousands of children over the past several years. Even more disappointing, CHIP enrollment continued to decline since the governor's February budget proposal. Therefore, adding new children to a lower base means less money is needed than originally proposed in Gov. Corbett's executive budget.

## Department of Drug & Alcohol Programs

The enacted budget increased funding for department operations by \$4,000 (1 percent). The budget funds **Assistance to Drug and Alcohol Programs** at the same level as 2012/13. This appropriation funds services provided through the counties for Pennsylvanians who do not have insurance or resources to pay for treatment.

## Tobacco Settlement Fund

The final 2013/14 budget includes \$342 million of spending from the Tobacco Settlement Fund for health-related programs as detailed in the table below. Program expenditures for 2013/14 reflect changes that the General Assembly made to provisions contained in the Tobacco Settlement Act (Act 77 of 2001) governing the deposit and spending of tobacco payments and revenues. As in previous budgets, the General Assembly used the

Tobacco Settlement Fund Expenditures for Health-Related Programs	Final 2013/14
<i>(In Millions)</i>	
Home and Community-Based Services	\$41.1
Tobacco Use Prevention and Cessation	\$14.2
Health Research - Broad Based	\$39.8
Health Research - Cancer	\$3.2
Hospital Uncompensated Care	\$25.8
Medical Assistance for Workers with Disabilities	\$94.7
PACenet Transfer	\$25.3
Other Health-Related Programs:	
<i>Medical Assistance - Long Term Care</i>	\$95.1
<i>Life Sciences Greenhouses</i>	\$3.0
<b>TOTAL</b>	<b>\$342.2</b>

Fiscal Code (SB 591) to alter the Act 77 provisions; however, this year's amendment to the Fiscal Code repealed existing Act 77 provision and made the new provisions permanent.

Among the provisions enacted in SB 591 are new percentages for appropriating annual tobacco payments. The percentages established in SB 591 are the same as those used in fiscal year 2012/13 to appropriate Tobacco Settlement Funds, pursuant to provisions in Act 87 of 2012 (Fiscal Code). For purposes of comparison, the table below identifies the annual appropriation percentages initially established in Act 77 and the replacement percentages in SB 591. Beginning in 2013/14, the annual allocation to the endowment account is eliminated and an annual allocation for health-related purposes – namely, Medical Assistance Long-Term Care and Life Sciences Greenhouses – is added.

Tobacco Settlement Fund Program Receiving Annual Appropriations	Act 77	SB 591
Home and community-based services	13%	13%
Tobacco use prevention and cessation programs	12%	4.5%
CURE - Broad-based health research	18%	12.6%
CURE - Cancer research	1%	1%
Hospital uncompensated care payment program	10%	8.18%
Medical Assistance for Workers with Disabilities (MAWD)*	30%	30%
PACENET program for seniors	8%	8%
Health Endowment Account	8%	n/a
Health-related purposes	n/a	22.72%

\*Act 77 stipulates that these funds be used for both MAWD (established in Chapter 15 of Act 77) and the adultBasic program (established in Chapter 13 of Act 77). Senate Bill 591 does not appropriate any funds for adultBasic, even though it did not repeal Chapter 13; therefore, the program remains in statute.

Additionally, SB 591 requires that all other payments and revenues received in the fund (other than the annual payments) shall be appropriated for health-related purposes. "Other payments" include the strategic contribution payments received by the commonwealth from 2008 through 2017. Appropriating strategic contribution payments for health-related purposes is consistent with how they were used in previous budgets, including 2012/13.

More detailed information about the Tobacco Settlement Fund and Lottery Fund will be provided in separate budget briefings this summer. They will be available online at: [www.hacd.net](http://www.hacd.net).

## Lottery Fund

The enacted 2013/14 budget spends \$1.287 billion of Lottery Fund revenues on senior programs, which is \$58 million more than 2012/13. Funds budgeted for senior programs reflect Gov. Corbett's request, with one change: funding for Grants to Senior Centers, a new appropriation in the Department of Aging, was increased from \$2 million, as the governor requested in his proposal, to \$2.150 million.

Per the governor's request, \$21 million is appropriated for Home and Community Based Services, which funds the Aging Waiver. **About \$8 million will be used to expand Aging Waiver services to an additional 1,547 older Pennsylvanians in 2013/14.**

The following table details 2013/14 Lottery Fund expenditures by agency and senior 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. Expenditures for programs administered by the Department of Revenue and the Department of Transportation are made by Executive Authorizations which do not require approval from the General Assembly.

This budget is not predicated on privatizing the management and operation of the Lottery, as proposed by the governor.

Lottery Fund Expenditures for Senior Programs	Final 2013/14	Change from 2012/13
<i>(\$ in Millions)</i>		
<b>Department of Aging:</b>		
PennCARE	\$275.2	\$27.0
Pre-Admission Assessment	\$10.7	-
Caregiver Support	\$12.1	-
Pharmaceutical Assistance Fund Transfer	\$190.0	-
Grants to Senior Centers	\$2.2	\$2.2
Alzheimer's Outreach	\$0.3	-
<b>Department of Public Welfare:</b>		
Medical Assistance Long-Term Care	\$309.1	-
Home and Community Based Services	\$21.0	\$21.0
<b>Department of Revenue:</b>		
Property Tax and Rent Rebate	\$292.4	\$6.3
<b>Department of Transportation:</b>		
Shared Ride	\$81.0	-
Free Transit	\$93.0	\$1.7
<b>TOTAL</b>	<b>\$1,286.8</b>	<b>\$58.1</b>

## **Transportation**

The enacted budget includes \$4.16 billion in Department of Transportation funding, a decrease of roughly \$200 million (4.6 percent). The largest decrease of \$154 million in state funding reflects the conclusion of the accelerated bridge repair program, and the budget reflects a decline of nearly \$50 million in federal funding as a result of reduced grants for surface transportation purposes from the nearly insolvent federal Highway Trust Fund.

**This budget fails to adequately address Pennsylvania's transportation needs, including highways, bridges and public transit.**

In May 2010, the Pennsylvania State Transportation Advisory Committee estimated the funding gap to be \$3.5 billion. Since then, the unmet need has grown to over \$4.6 billion, exacerbated by improved vehicle fuel economy (i.e., reduced tax revenue), but also by inaction due to the increased cost of construction for aging infrastructure.

It should be noted that highways, bridges, and the administration thereof, are funded exclusively by the Motor License Fund with revenues generated largely from taxes, fees, fines, statutory transfers and federal grants.

State funding for public transit is provided largely from statutory transfers and federal grants.

Funding for transportation through the General Appropriations bill represents roughly 0.15 percent of the Department of Transportation's total budget.

### **Failed Transportation Package**

On June 5, 2013, the Senate passed a \$2.5 billion transportation funding package (as estimated by Senate Republican committee staff). On June 27, 2013, House Republicans in the Transportation Committee amended SB 1, dramatically reducing the overall spending on roads, bridges, public transit and multimodal projects to \$1.84 billion by year five. This represented just a fraction of the unspent funding need as identified in the Transportation Funding Advisory Committee (TFAC) report. Since the report was issued in 2011, the overall need has grown to more than \$4.6 billion and continues to grow every day. The Republican transportation funding plan was recklessly inadequate.

## **PennPORTS**

PennPORTs provides grants and interagency agreements to support operations and improvements to the ports of Philadelphia, Erie and Pittsburgh. The enacted budget transferred this appropriation from the Department of Community and Economic Development to the Department of Transportation.

The budget includes conditional language providing that if legislation establishing a Multimodal Transportation Fund to provide funding for PennPORTs is NOT enacted by Oct. 31, 2013, then the governor must transfer a minimum of \$3.7 million from any unused funds appropriated to the Department of Transportation for this purpose.

### **Rail Freight Assistance Program (RFAP)**

The RFAP program provides financial assistance for investment in rail freight infrastructure. The final 2013/14 budget includes conditional language providing that if legislation establishing a Multimodal Transportation Fund to provide funding for RFAP is NOT enacted by Oct. 31, 2013, then the governor must transfer a minimum of \$5.75 million from any unused funds appropriated to the Department of Transportation for this purpose.

## **Law Enforcement, Public Safety & Justice**

### **State Police**

The enacted budget provides for three State Police cadet classes (approximately 290 cadets) and the hiring of 90 civilians to free up 90 troopers, for a total of 380 additional troopers. The State Police funds cadet classes from its General Government Operations appropriation (GGO).

The enacted budget provides \$759.2 million for the State Police GGO. Of that amount, \$191.3 million (25 percent) is from the General Fund and \$567.9 million (75 percent) is from the Motor License Fund. The budget increases the State Police's GGO by \$52.8 million (7.5 percent) as compared to 2012/13.

**The State Police currently has 544 vacancies and roughly 1,000 troopers are eligible to retire.** Even with the increase in funding for additional troopers, it is not enough and will be difficult for the State



Police to maintain adequate trooper complement across the commonwealth. As of June 24, 2013, the State Police trooper complement includes:

- 4,689 total authorized troopers – 4,145 filled and 544 vacant.
- 4,310 troopers authorized under a legislative cap – 3,817 filled and 493 vacant.
- 238 troopers authorized to work on the turnpike – 198 filled and 40 vacant.
- 141 troopers authorized to work in gaming – 130 filled and 11 vacant.

### Department of Corrections

The enacted budget provides the Department of Corrections with \$1.9 billion, an increase of \$75.2 million (4 percent). **The Department of Correction's budget represents 6.7 percent of the total General Fund budget for 2013/14.**

The budget includes \$43,000 for the newly created Transfer to Justice Reinvestment Fund. Of this amount, the governor signed executive authorizations to give \$12,000 to the Pennsylvania Commission on Sentencing and \$31,000 to Victim Services.

The moneys transferred into the fund represent savings to the Department of Corrections from the Justice Reinvestment Initiative (JRI), a statutorily-created effort to rein in rising costs and to lower recidivism rates. The governor's executive budget proposal included \$761,000 for the fund, an amount representing the JRI's anticipated 2012/13 savings. However, the Senate reduced the amount to \$43,000, the actual savings generated by the JRI in 2012/13. The JRI was projected to save more than \$1 million in 2012/13, according to the House Republican fiscal note for SB 100 of 2012.

**As of April 30, 2013, there were 51,256 inmates under the jurisdiction of the Department of Corrections, which is 105.6 percent of capacity.**

### Juvenile Probation Services

The enacted budget increased funding for Juvenile Probation Services by 15.2 percent to nearly \$19 million.

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.

### Board of Probation & Parole

The enacted budget includes an overall increase of \$142.5 million (7.5 percent) for the Board of Probation and Parole. The Board's general government operations appropriation (GGO) will increase by \$9.6 million (8.7 percent), for a total of nearly \$120 million.

The budget provides the Sexual Offenders Assessment Board with \$5.4 million, a 5.5 percent increase compared to last fiscal year.

The budget provides the Improvement of Adult Probation Services with \$16.2 million, which is flat-funded compared to 2012/13.

### Commission on Crime & Delinquency

The enacted budget provides the Pennsylvania Commission on Crime and Delinquency \$3.955 million, a \$637,000 (19.2 percent) increase over 2012/13. However, the commission may lose some federal funds in 2013/14 due to the federal sequestration.

### Judiciary

The enacted budget provides for an \$8.1 million (2.6 percent) increase in the Judiciary's budget. This is \$7.5 million less than what the courts requested, but is \$9.2 million more than the governor's executive budget proposal.

### Emergency Management Agency

The enacted budget provides needed state funding to match federal funds **for disaster assistance** in 2011 and as a result of Hurricane Sandy. The budget also includes \$150,000 (an increase of \$50,000) for the **Red Cross Extended Care** program which was eliminated in the governor's proposal.

### Department of Military & Veterans' Affairs

The enacted budget decreases funding for **Veteran's Homes** by \$3.3 million (3.9 percent). This amount reflects continued cost-savings initiatives by the department, including things such as: maximizing federal funds, best management practices, overtime reduction and procurement efficiencies.

The enacted budget includes an additional \$1.05 million (64.3 percent) for **Veterans' Outreach Services** over 2012/13. The Fiscal Code directs \$350,000 of this amount to specific veterans support programs.

The enacted budget also includes \$100,000 for **Civil Air Patrol**. This program last received state funding in 2009/10.

## **Environment**

### **Department of Environmental Protection**

The enacted budget includes \$127.7 million for the Department of Environmental Protection (DEP), an increase of \$2.9 million (2.3 percent) compared to 2012/13 (excluding the Environmental Hearing Board). This amounts to a \$14.4 million (10.2 percent) cut since Gov. Corbett took office. **State funding for DEP has declined by \$89.8 million (41.3 percent) over the past five years.**

Pennsylvania's 66 conservation districts (one in every county except Philadelphia) implement several water quality protection programs on behalf of the state. The County Conservation Districts have historically received funding through local government support, fees and state appropriations within the Departments of Agriculture and Environmental Protection. However, Act 13 of 2012 provided that the conservation districts receive a portion of the impact fee paid by unconventional gas well operators. In light of this new revenue stream, Gov. Corbett proposed to eliminate the state appropriations for conservation districts. Instead, the final 2013/14 budget funds conservation districts at 87 percent of their previous General Fund contribution. Lumping the state appropriations and the impact fee payment together, conservation districts will receive \$2 million (31 percent) more from the state in 2013/14 than in 2012/13.

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 2013/14 budget reinstates the Sewage Facilities Planning Grants at \$200,000, which is less than one-half of its 2011/12 appropriation and only one-tenth of its 2007/08 appropriation. Sewage Facility Enforcement Grants and Flood Control Projects continue to receive zero funding.

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 positions to the bureau. Currently, only 185 of the authorized 202 positions are filled.

### **Department of Conservation & Natural Resources**

In the enacted budget, the Heritage and Other Parks appropriation, which has not received General Fund support since 2010/11, receives \$2.25 million. These funds will be used to build partnerships across public, private and non-profit groups to create projects and programs that foster economic development, conservation and tourism in Pennsylvania's 12 state-designated Heritage Areas.

Total funding for the Department of Conservation and Natural Resources (DCNR) is slightly increased in the 2013/14 budget; however, this increase is made possible through a major shift in the primary funding source for the department. The 2013/14 budget cuts state funding for parks and forests by a combined 75 percent (\$25 million) and backfills this cut with an increased transfer from the Oil and Gas Lease Fund. The \$69 million DCNR received from the Oil and Gas Lease Fund in 2012/13 rises to more than \$106 million in the 2013/14 budget. Compare this to the \$72 million the department will receive in General Fund funding. This marks the first time that oil and gas revenues will contribute more to DCNR than the General Fund. Oil and gas rents and royalties will constitute over one-third of DCNR's total budget in 2013/14.

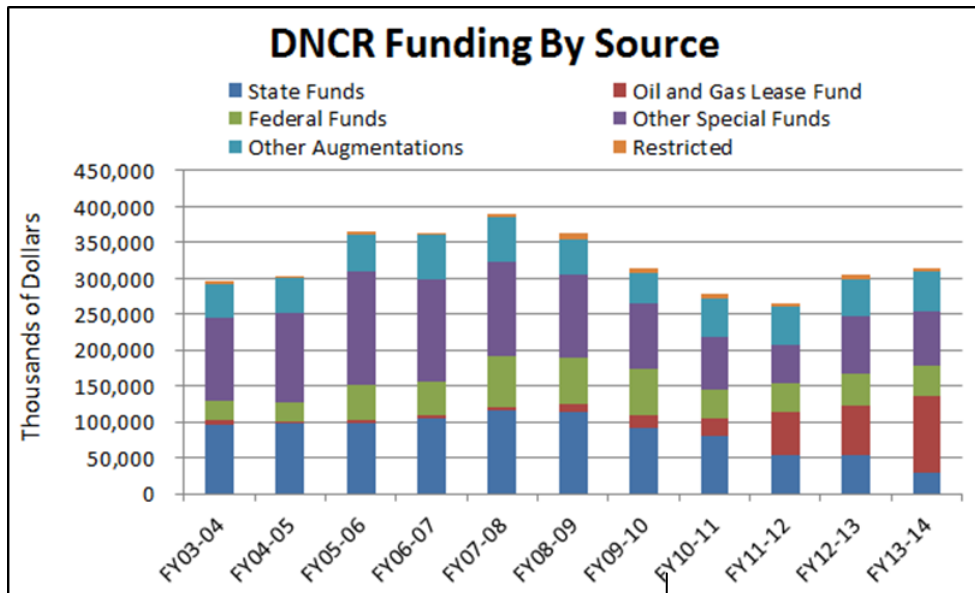
**Furthermore, this year's 75 percent state funding**

cut to parks and forests is in addition to the 45 percent cut Gov. Corbett imposed in his first two budgets. With the passage of the 2013/14 budget, Gov. Corbett has cut state funding for state parks and forests by 86 percent since taking office. Each year, the governor diverts more oil and gas rents and royalties to compensate for DCNR's loss in state funding; forcing Pennsylvania's conservation agency to become heavily reliant on resource extraction for its operating budget. As a result of Gov. Corbett's cuts in 2012/13, 47 percent of state park personnel costs were paid by oil and gas royalties and 88 percent of state forest personnel costs were paid by timber sales and oil and gas revenues.

The budget provides \$46.2 million for the Transfer to the Agricultural Land Scrip Fund (for Penn State University's research and extension agriculture programs), which is a \$1.5 million increase compared to last year.

The budget includes a new restricted revenue account, called the Pennsylvania Race Horse Development Restricted Receipts Account, in the Pennsylvania Race Horse Development Fund. Each week \$802,682 from Pennsylvania Race Horse Development Fund will be transferred to the account. This transfer is not to exceed \$17.65 million annually. These funds will be used to fund

the Transfer to Farm Show Products (\$4 million), Pennsylvania Fairs (\$3 million), the Animal Health Commission (\$5.4 million) and the Pennsylvania Veterinary Laboratory (\$5.3 million) appropriations under the Department of Agriculture. In 2012/13, the Animal Health Commission and Veterinary Laboratory were supported from the General Fund.



## Other

### Department of Agriculture

The enacted budget cuts the Department of Agriculture's General Government Operations (GGO) by 13.3 percent, for a total appropriation of \$22.7 million. The total General Fund appropriations for all agricultural programs is \$123.8 million, 4.4 percent less than 2012/13.

The budget includes \$28 million for the University of Pennsylvania Veterinary Activities, which is \$111,000 more than last fiscal year, and \$261,000 for the University of Pennsylvania Center for Infectious Disease, which is \$13,000 more than last year. These non-preferred appropriations will be funded under the Department of Agriculture.

### Department of Community & 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. The Department of Community and Economic Development's (DCED) list of **Act 47 municipalities still stands at 21 as no municipalities were added or removed from the distressed determination list in fiscal year 2012/13.**

The 2012/13 budget made a huge investment in distressed communities by increasing funding for the Act 47 program from \$925,000 to \$12.096 million. The 2013/14 budget includes \$7.096 million for the

Act 47 program, a cut over last year but still a sound investment in Pennsylvania's most troubled municipalities.

**A new appropriation was created within DCED called the Center for Local Government Services.** A portion of the \$7.308 million appropriation will be used to fund DCED's Center for Local Government Services, which administers the Act 47 and Early Intervention for Distressed Municipalities programs. At this point, it is not clear how much of the \$7.308 million is earmarked for other purposes. DCED's General Government Operations sustained a 14 percent cut because the Center for Local Government Services was moved to its own appropriation.

The enacted budget includes some increases for DCED programs:

- World Trade PA program receives a \$1.153 million (19 percent) increase;
- Marketing to Attract Business program receives a \$2.501 million (266 percent) increase;
- Marketing to Attract Tourists program receives a \$1.625 million (28 percent) increase; and
- Pennsylvania First program receives a \$8.3 million (28 percent) increase.

Additionally, the enacted budget marks the return of the **Rural Leadership Training (\$100,000) and Super Computer Center (\$500,000) appropriations.** These programs last received funding in 2010/11 and 2009/10, respectively.

The appropriation for the Philadelphia Regional Port Authority Debt Service was moved to the Department of Transportation, while funding for the PennPORTS program is dependent on further legislation. See Transportation on Page 12 for more information on PennPORTS. Also, the Appalachian Regional Commission (\$1.003 million) will now be funded through the Motor License Fund.

The Commonwealth Financing Authority (CFA) issues bonds to support new economic development in Pennsylvania. The commonwealth pays a large part of the CFA's debt service through an appropriation in DCED's budget. The state-funding needed to fully fund the CFA's debt payment in 2013/14 is \$92 million; however, the enacted budget only includes \$78.019 million. The \$14 million difference will be made up through a combination of unused funds from the CFA's

2012/13 appropriation and money set aside for alternative energy projects that never came to fruition.

## **Department of Labor & Industry**

The General Fund portion of the Department of Labor and Industry's budget is relatively small compared to the special funds it receives. However, there are several General Fund appropriations that provide important services for disabled individuals, and others that help encourage employment and provide for workplace safety.

The transfer to the **Vocational Rehabilitation Fund remains flat at \$40.47 million** in the final budget. This appropriation funds the Office of Vocational Rehabilitation (OVR), which helps people with disabilities get the services they need to live independently and secure employment. The enacted budget also provides **level funding for Centers for Independent Living at \$1.9 million.**

The two assistive technology appropriations, which help Pennsylvanians try out and acquire expensive assistive technology devices, were treated differently in the final budget. Assistive Technology Demonstration and Training receives level funding of \$399,000. This appropriation supports the statewide assistive technology lending library in conjunction with Temple University. The other appropriation, Assistive Technology Devices, received \$400,000, an increase of \$156,000 (63.9 percent). This funding helps the Pennsylvania Assistive Technology Foundation and its low-interest loan program for the purchase of assistive technology devices.

The budget again funds the New Choices/New Options program at \$500,000, the same as 2012/13.

The budget provides a \$200,000 increase (12.4 percent) increase for the Industry Partnerships appropriation. The Fiscal Code directs \$200,000 of the Industry Partnerships' appropriation to a workforce development program for veterans in Delaware County.

Finally, the enacted budget increases funding for the Occupational and Industrial Safety appropriation, which funds the enforcement of a host of workplace and public safety laws, by \$984,000 (9.6 percent). The appropriation is now \$11.18 million.



## Department of State

While overall funding within the Department of State did not see any remarkable changes, the **Voter Registration appropriation was increased significantly. Compared to 2012/13, this budget increases the line from \$451,000 to \$2.5 million (456 percent).**

Traditionally, this appropriation is used for voter registration and education programs. However, this significant increase is questionable compared to historical increases and given that this is not a presidential election year. Additionally, there have been unconfirmed reports that the rationale behind this increase may be the possibility of continued litigation surrounding the Voter ID law.

## Department of General Services

The enacted budget cut General Government Operations (GGO) for the Department of General Services by \$6.745 million. This reduction is because the budget moved Capitol Police Operations from General Services' GGO into its own appropriation.

The new Capitol Police Operations appropriation will receive \$11.484 million in 2013/14, an increase of \$684,000 as compared to 2012/13. The Capitol Police currently has 102 positions.

## Historical & Museum Commission

In the 2012/13 fiscal year, \$1.151 million was included in the Historical and Museum Commission's General Government Operations appropriation for grants to non-state-owned museums. In the 2013/14 budget, the amount available for these grants was increased to \$2 million and given its own appropriation called Cultural and Historical Support.

In addition, the Fiscal Code states that the commission will enter into an agreement with the Department of Conservation and Natural Resources regarding the ownership, management and operation of Washington Crossing Historical Park in Bucks County, which is currently operated by the commission.

## Row Offices

### Office of Attorney General

The enacted budget provides the Office of Attorney

General with \$87.3 million, a \$9.2 million (11.7 percent) increase over 2012/13.

The Attorney General's general government operation (GGO) appropriation increases by \$3.9 million (10.9 percent) compared to 2012/13. While this appears to be a significant increase, two other appropriations are being consolidated into the Attorney General's GGO: Capital Appeals Case Unit and Charitable Nonprofit Conversions. These consolidated appropriations received \$1.3 million in 2012/13.

The budget eliminates the Drug Strike Task Force appropriation, which received nearly \$2 million in 2012/13. The budget for the Attorney General includes a new \$2.5 million appropriation for a Mobile Street Crimes Unit. The Local Drug Task Forces receives \$11.8 million, a 22.6 percent increase over 2012/13. The Child Predator Interception Unit receives nearly \$4.4 million, which is \$3 million more than 2012/13.

### Office of Auditor General

Overall, this budget provides the Office of Auditor General with approximately \$44.8 million, an increase of nearly \$2.4 million. Specifically, the General Governmental Operations appropriation saw an increase of \$612,000 to assist with rising personnel costs.

Additionally, a new appropriation was created called "Information Technology Modernization." This new appropriation will be used to address antiquated information technology within the office. No investment has been made in this area for many years and is necessary to improve efficiencies and timeliness of audits. However, the appropriation of \$1.75 million falls well below the need identified by the information technology audit of \$9 million over two years, with \$6 million in the first year.

### Treasury Department

The Treasury Department receives in total \$32.23 million from this budget, which is an increase of \$476,000 (1.5 percent).

The department only received \$9 million to continue its successful information technology modernization program, \$3 million less than the department's request of \$12 million.

## Tax & Revenue

<b>Tax Code (Act 52/HB 465)</b> Revenue Gain (Loss) \$ in Millions		
Tax Type	Description of Change	2013/14 General Fund Impact
<b>Sales and Use Tax</b>	Repeal of call center tax credit.	0.5
<b>Sales and Use Tax</b>	Aircraft parts and service sales tax exclusion.	(3.7)
<b>Sales and Use Tax</b>	Shortens the appeal period for businesses operating without a sales tax license from 90 to 30 days.	-
<b>Sales and Use Tax</b>	Repeals obsolete provisions related to county treasurers and sales tax remittances.	-
<b>Sales and Use Tax</b>	Requires the Independent Fiscal Office to provide a report on revenues collected if federal legislation related to remote sellers is enacted.	-
<b>Sales and Use Tax</b>	Extends the 1% Philadelphia sales and use tax scheduled to expire on July 1, 2014, and directs up to \$120 million to the Philadelphia School District. Amounts over \$120 million, up to \$15 million per year from 2014/15 through 2017/18, shall be used for the payment of debt service incurred by the city for the benefit of the school district. Any additional amounts shall be paid to the city, in accordance with the Municipal Pension Plan Funding Standard and Recovery Act.	-
<b>Personal Income Tax</b>	S-Corp, LLC and partnership filing and compliance changes for the personal income tax.	2.6
<b>Personal Income Tax</b>	Limits the resident credit to taxes paid to other states and eliminates the credit for taxes paid to other countries.	-
<b>Personal Income Tax</b>	Allows start up businesses to deduct \$5,000 from taxable income in the year when a business is established.	-
<b>Personal Income Tax</b>	Expensing or amortization of intangible drilling costs.	(1.1)
<b>Personal Income Tax</b>	Extends personal income tax check-offs through tax year 2017 for Wildlife Resource Conservation, Organ and Tissue Donor Awareness and Military Family Relief Assistance. Adds new check-offs for the Children's Trust Fund and the American Red Cross.	-
<b>Personal Income Tax</b>	Allows the Department of Revenue to impose fines related to employer withholding returns and underpayment or failure to pay withholdings.	-

*Continued on Page 19*

*Tax Code (Act 52/HB 465) Continued From Page 18*

Tax Type	Description of Change	2013/14 General Fund Impact
<b>Corporate Net Income Tax</b>	Requires companies to add back intangible expenses and costs to taxable income, including associated interest expense. The adjustment does not apply to transactions that did not have as the principal purpose the avoidance of tax and was done at arm's length and terms. This provision is intended to help close some of the Delaware loophole.	-
<b>Corporate Net Income Tax</b>	Market-based sourcing for sales apportionment factor - sourcing sales to where the customer gets the benefit.	7.0
<b>Corporate Net Income Tax</b>	Apportionment formula change for satellite television services.	(0.6)
<b>Corporate Net Income Tax</b>	Increase net operating loss deduction cap to greater of \$4 million or 25% for tax year 2014, and \$5 million or 30% for tax year 2015 and thereafter.	(11.4)
<b>Corporate Net Income Tax</b>	Creates non-filer penalties for C-corps that do not file a tax return.	-
<b>Capital Stock and Franchise Tax</b>	Modified capital stock and franchise tax phase out schedule to 0.67 mills for tax year 2014, 0.45 mills for tax year 2015 and elimination thereafter.	58.4
<b>Bank Shares</b>	Comprehensive re-write of the bank shares tax to adjust for changes in the industry.	(0.6)
<b>Bank Shares</b>	Requires the Departments of Revenue and Banking to work with the industry to analyze the Bank Shares tax reforms and provide a report with 18 months to be sure the reforms adequately deal with the changes to the industry	-
<b>Realty Transfer</b>	Eliminates the realty transfer tax 89/11 loophole.	4.3
<b>Realty Transfer</b>	Provides an exclusion from the realty transfer tax for transfers involving volunteer EMS, fire or rescue companies, if the transfer is between two companies, or between a company and the commonwealth and involves no or nominal consideration.	Nominal
<b>Non-licensed Corporation Pari-mutuel Wagering Tax</b>	Establishes a new 10% tax on advance deposit account wagering on horse races in Pennsylvania. Up to \$5 million will be transferred from the General Fund to a restricted account of the State Racing Commission, and amounts over \$5 million in 2013/14 will be transferred to the PA Race Horse Development Fund.	-
<b>Educational Opportunity Scholarship Tax Credit</b>	Clarifies that scholarship recipients can continue to receive awards for 5 years or completion of grade 12, even if the school is removed from the list of eligible schools.	-

*Continued on Page 20*

*Tax Code (Act 52/HB 465) Continued From Page 19*

Tax Type	Description of Change	2013/14 General Fund Impact
<b>Film Tax Credit</b>	Makes technical changes involving withholding of personal income tax from payments to pass-through entities representing individual talent, clarifies the start date approved by the PA Film Office, provides flexibility to the Director of the Film Office in criteria used to maximize employment and benefit through the approval of credits and provides for limited carry-forward of credits.	-
<b>Coal Waste Removal and Ultraclean Fuels Tax Credit</b>	Repeals the credit.	-
<b>Job Creation Tax Credit</b>	Clarifies that DCED can award the total amount of a multiple-year tax credit in the first year when the credit is earned, consistent with existing policy.	-
<b>City Revitalization and Improvement Zone (CRIZ)</b>	Creates the CRIZ program for third-class cities, using tax increment financing to develop facilities within the designated zone.	-
<b>Mobile Telecommunications Broadband Investment Tax Credit</b>	Creates a tax credit equal to 5% of the cost of qualified mobile broadband equipment placed in service in PA for tax years 2014 through 2023, up to a maximum of \$5 million per year.	-
<b>Innovate in PA Tax Credit</b>	Establishes the Innovate PA tax credit program, which auctions off \$100 million in insurance premiums tax credits to capitalize the Ben Franklin Technology Partners program, the Venture Investment Program and the Life Sciences Greenhouses. Tax credits can be first applied against liability starting in 2017 for tax year 2016, and are subject to a maximum of \$20 million used per year by all taxpayers.	-
<b>Inheritance Tax</b>	Excludes the transfer of all business assets between members of the same family, as long as the business interest continues to be owned for at least 7 years following the decedent's death.	(3.8)
<b>Neighborhood Improvement Zones (NIZ)</b>	Codifies the existing NIZ program from the Fiscal Code into the Tax Reform Code.	-
<b>Keystone Special Development Zone Program (KSDZ)</b>	Codifies the existing KSDZ program from the Fiscal Code into the Tax Reform Code.	-
<b>Tax Appeals</b>	Reorganizes the Board of Finance and Revenue and its procedures.	-

<b>House Appropriations Committee (D)</b>		
Miriam A. Fox, Executive Director		
Beth Balaban Anne Baloga Sean Brandon Eric Dice	Lisa Fleming Bernie Gallagher Beryl Kuhr Wendy Lewis	Rayko Pacana Debbie Reeves Stephanie Weyant