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# 2011/12 Governor's Executive Budget

*An Analysis of Governor Corbett's Budget Proposal*

March 22, 2011

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House Appropriations Committee

512-E Main Capitol • Harrisburg, PA 17120-2025 • 717-783-1540

[www.hacd.net](http://www.hacd.net) [HDAPPROPS@hacd.net](mailto:HDAPPROPS@hacd.net)

**JOE MARKOSEK**, DEMOCRATIC CHAIRMAN



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## Summary

On March 8, 2011, Governor Tom Corbett presented his 2011/12 budget proposal to the General Assembly. **The Governor's 2011/12 Executive Budget represents a total Commonwealth operating budget of \$63.6 billion in state (General, Special and Other funds) and federal funds.** This represents a decrease of \$3.3 billion (4.9%) compared to the 2010/11 budget of \$66.8 billion. After the Governor's proposed cuts to the 2010/11 budget totaling \$369 million in General and Special Funds, his 2011/12 budget proposal reduces total spending by \$2.9 billion (4.3 percent).

**The Governor's 2011/12 Executive Budget proposes \$27.331 billion in General Fund state expenditures.** In comparison, the 2010/11 enacted budget included \$28.035 billion in total expenditures from state and federal offset funds, a decline of \$866 million. The Governor proposes moving Tobacco Settlement Funds and related appropriations to the General Fund for 2011/12. If these shifted appropriations are removed, spending actually declines by \$1.2 billion dollars. This provides a more accurate and direct comparison with the current year.

**Gov. Corbett proposes significantly reducing or eliminating many appropriations in the General Fund.** In addition, he proposes numerous cost containment measures in the Department of Public Welfare (DPW). **In total these cuts equal \$2.6 billion.** Also, in addition to funding cuts, **Gov. Corbett's proposal includes major budget, program and policy changes within the Departments of Education and Public Welfare.**

**Gov. Corbett's budget proposes significant cuts to General Fund programs, eliminates 103 line-item appropriations, eliminates over 1,500 state jobs, and consolidates 55 appropriations throughout six agencies.**

Gov. Corbett's proposal also includes a **\$540.1 million increase in fund modifications to the General Fund.** Note 90 percent (\$479 million) of these fund modifications are the result of the proposed transfer of Tobacco Settlement Funds to the General Fund.

While state spending is reduced and state taxes do not increase, **Gov. Corbett's proposal will impact the checkbooks of Pennsylvanians by directly shifting costs to citizens and local entities (such as counties and school districts).** As policymakers consider Corbett's proposal, they must carefully examine the impact it will have on their constituents, including local tax increases.

**The Governor's proposal only increases funding in a handful of agencies largely reflecting the replacement of federal offset funds, necessary inflationary increases, and legally mandated requirements.**

For detail by appropriation, please reference our spreadsheet document "***Governor's Proposed 2011-12 Budget: State and Federal Appropriations (General Fund) - March 11, 2011,***" available on our website ([www.hacd.net](http://www.hacd.net)). For detail by department subtotal, please reference Attachments A and C.

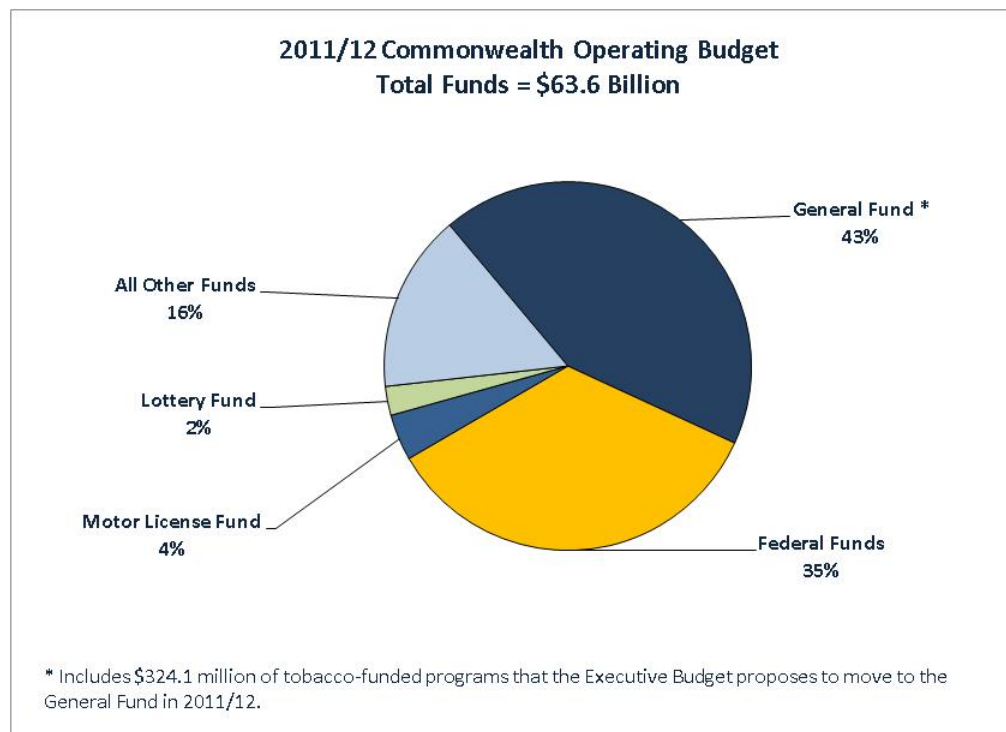
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## The Commonwealth Operating Budget

The Governor's 2011/12 Executive Budget represents a total Commonwealth operating budget of \$63.6 billion in state and federal funds. This represents a decrease of approximately \$3.3 billion or 4.9 percent compared to the updated fiscal year 2010/11 budget of \$66.8 billion.

The Commonwealth's operating budget includes the state General Fund, federal funds, the Motor License Fund, and other special funds (i.e., Lottery Fund and Tobacco Settlement Fund). Often, policymakers focus on state General Fund expenditure trends; however, since funding for major programs (such as Medical Assistance) can straddle multiple funds, the **focus on any single fund instead of total operating funds can significantly distort the facts**. The importance of examining combined operating funds is exemplified in Governor Corbett's budget request with the disappearance of federal offset funds, as well as the proposed transfer of the Tobacco Settlement Fund and some of its programs to the General Fund.

The pie chart below shows the distribution of the 2011/12 Executive Budget by fund. State funds, led by the General Fund, represent 65 percent of total spending and federal funds account for 35 percent.



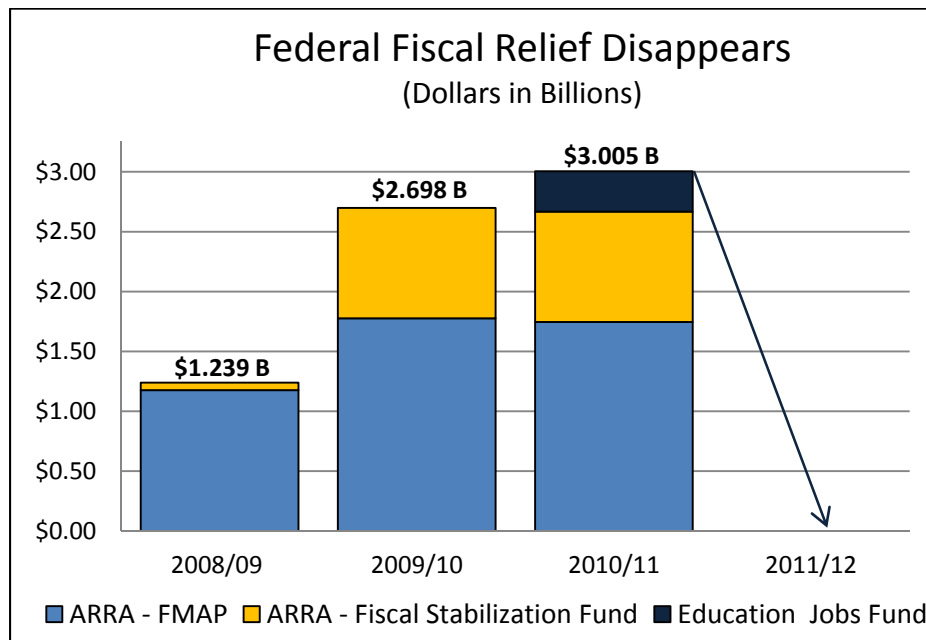
Compared to 2010/11, state expenditures from all funds increase by about \$1.5 billion for the 2011/12 budget year, or about 3.8 percent, and federal funds decrease by \$4.8 billion or 17.8 percent. The reduction in federal funding reflects the disappearance of monies made available to Pennsylvania from the American Recovery and Reinvestment Act of 2009 (ARRA) and subsequent legislation enacted by Congress in 2010 which helped states address unprecedented budget deficits during the current economic downturn.

**ARRA provided significant fiscal relief to the states by temporarily increasing the Federal Medical Assistance Percentage (FMAP) for state Medicaid programs and by allocating Fiscal Stabilization Funds which states used for education and other public safety services.** As authorized under ARRA, the Fiscal Stabilization Funds were available through fiscal year 2010/11 and the enhanced FMAP through December 2010. In August 2010, Congress passed legislation that extended the enhanced FMAP through June 2011. This same act provided new **“Education Jobs Funds”** to the states which is intended to be used for the 2010/11 school year.

Over the past three fiscal years, **Pennsylvania has utilized these federal funds to offset expenditures which otherwise would have been paid for with state General Funds.** While stimulus funds were not enough to allow for normal growth in expenditures, Pennsylvania was able to mitigate some of the effects of reduced revenues on programs.

- **Fiscal Stabilization Funds have been used to help fund the agency budgets** for the Departments of Education, Corrections and General Services.
- The **additional federal reimbursements earned under the ARRA FMAP have been applied to Medical Assistance and other Medicaid-related programs** that serve individuals with intellectual disabilities, autism, and physical disabilities. The ARRA FMAP reflects state Medicaid expenditures that are temporarily shifted to the federal government during the stimulus period.
- Gov. Corbett proposes to use the new **Education Jobs Funds** to pay for basic education in 2010/11.

The bar graph on the following page illustrates federal fiscal relief funds used to support General Fund budgets from 2008/09 through 2010/11. As proposed by Gov. Corbett, these funds are no longer available after June 30, 2011. For a more detailed look at the application of federal funds to offset state expenditures, please see Attachment B.



## General Fund

The General Fund is the major operating fund of the Commonwealth, representing the largest portion of state and federal spending. It also is the fund over which policymakers have the most influence on expenditures.

**Governor Corbett's 2011/12 state General Fund budget request is \$27.3 billion.** The budget year reductions to spending are deep and a clear understanding of a comparison between the budget year and current year is complicated by proposed fund transfers and federal offset funds. Consequently, an analysis of the proposed expenditure changes is examined under the subsection on "Expenditures" later in this section.

The Executive Budget assumes \$27.3 billion in state General Funds available to spend in 2011/12, an increase of nearly \$1.8 billion compared to 2010/11. These available state funds reflect the Corbett Administration's upward revision to the 2010/11 revenue estimate and proposed changes to taxes and other funding sources in the upcoming year.

The financial statement on the following page provides an overview of Governor Corbett's revenue assumptions and expenditure recommendations. A detailed discussion of General Fund revenues and expenditures immediately is provided later in this section.

Financial Statement 2011/12 Governor's Executive Budget Proposal (in millions of dollars)		
	Corbett's Updated FY 2010/11	Corbett's Proposed FY 2011/12
<b>Adjusted Beginning Balance</b>	(\$294)	\$586
<b>Revenue:</b>		
Revenue Receipts	\$26,790	\$27,405
Proposed Revenue Changes		\$540
Less: Refunds	(\$1,125)	(\$1,195)
<b>Total Revenue</b>	<b>\$25,665</b>	<b>\$26,750</b>
Plus: Prior Year Lapses	\$180	\$0
<b>Total Funds Available</b>	<b>\$25,551</b>	<b>\$27,336</b>
<b>Expenditures:</b>		
Appropriations	\$28,035	\$27,331
Supplemental Appropriations	\$163	\$0
Federal Offset Funds	(\$3,055)	\$0
Less: Current Year Lapses	(\$178)	\$0
<b>Total State Expenditures</b>	<b>\$24,965</b>	<b>\$27,331</b>
Preliminary Balance	\$586	\$5
Less: Transfer to Budget Stabilization Reserve Fund	\$0	\$1
<b>Ending Balance</b>	<b>\$586</b>	<b>\$4</b>

When the General Appropriations Act was passed on June 30, 2010, Pennsylvania was one of 26 states that adopted a 2010/11 budget assuming a six-month extension of the full ARRA FMAP enhancements. Instead, legislation passed by Congress in August 2010 provided a scaled-down extension of the ARRA FMAP provisions, resulting in less than anticipated federal Medicaid reimbursements for Pennsylvania and creating a budget gap initially estimated at approximately \$280 million. The August 2010 act also provided new education jobs funds made available to the states for the purpose of sustaining jobs in schools. Based on these federal developments, Governor Corbett proposes the following changes to the enacted 2010/11 budget, which close the budget gap and leave a projected \$586 million General Fund balance at the end of the fiscal year.

- On the expenditure side, Governor Corbett requests **supplemental state appropriations** that net \$163 million and include:
  - A \$250 million increase for the Department of Public Welfare. Most of this increase is required to adjust for the impact of the scaled-down ARRA FMAP extension. Note that the supplemental need would have been \$30 million more had it not been for county



intergovernmental transfer funds still held in reserve and available to use in lieu of state General Funds.

- An offsetting reduction of \$87 million in federal ARRA FMAP funds.
- Also on the expenditure side, the Governor proposes a \$178 million cut in 2010/11 state appropriations (reported as “current year lapses” on the financial statement). This includes his proposal to use the new federal Education Job Funds to offset a reduction of \$388 million in 2010/11 state expenditures for basic education.
- On the revenue side, Governor Corbett assumes 2010/11 revenue collections will exceed estimate by \$78 million and uses \$180 million of additional revenues associated with unspent funds from prior year budgets (reported as “prior year lapses” on the financial statement).

Disappearing federal fiscal relief combined with the loss of one-time revenue sources used in 2010/11 led to a 2011/12 budget gap that we estimated would exceed \$4 billion. To address this problem, **Gov. Corbett’s proposal primarily reduces expenditures in combination with proposals to modify General Fund sources without additional taxes.** Our analysis of the Executive Budget reveals the following:

- **Expenditures are cut \$2.6 billion.** This includes only those state appropriations that were eliminated or reduced, as well as cost containment initiatives within the Department of Public Welfare budget.
- **“New” funds available to spend total \$1.4 billion.** This includes the \$586 million balance carried over from 2010/11, projected growth in revenue receipts of \$615 million, \$9.1 million in changes to tax credit programs, and proposed fund modifications for an additional \$215 million (we only count that part of the tobacco revenues that are transferred to the General Fund and not earmarked for a specific purpose).

**Numerous budget drivers impact the 2011/12 budget:**

- **Over \$3 billion in federal offset funds – including \$2.7 billion of ARRA funds and \$388 million of Education Job Funds – are no longer available to cover General Fund expenditures.**
- **An additional \$250 million in federal fiscal relief was provided to Pennsylvania in 2010/11 via a reduction in the monthly Medicare Part D payments owed to the federal government and is no longer available.**
- **\$869 million in one-time funding sources used in 2010/11 are no longer available in 2011/12. This includes the \$121 million redirected from the Tobacco Settlement Fund to help cover pension costs which would have otherwise been paid with General Funds.**
- **Pension costs, while reduced significantly by Act 20 of 2010, continue to rise by approximately \$294 million.**

## Deposits

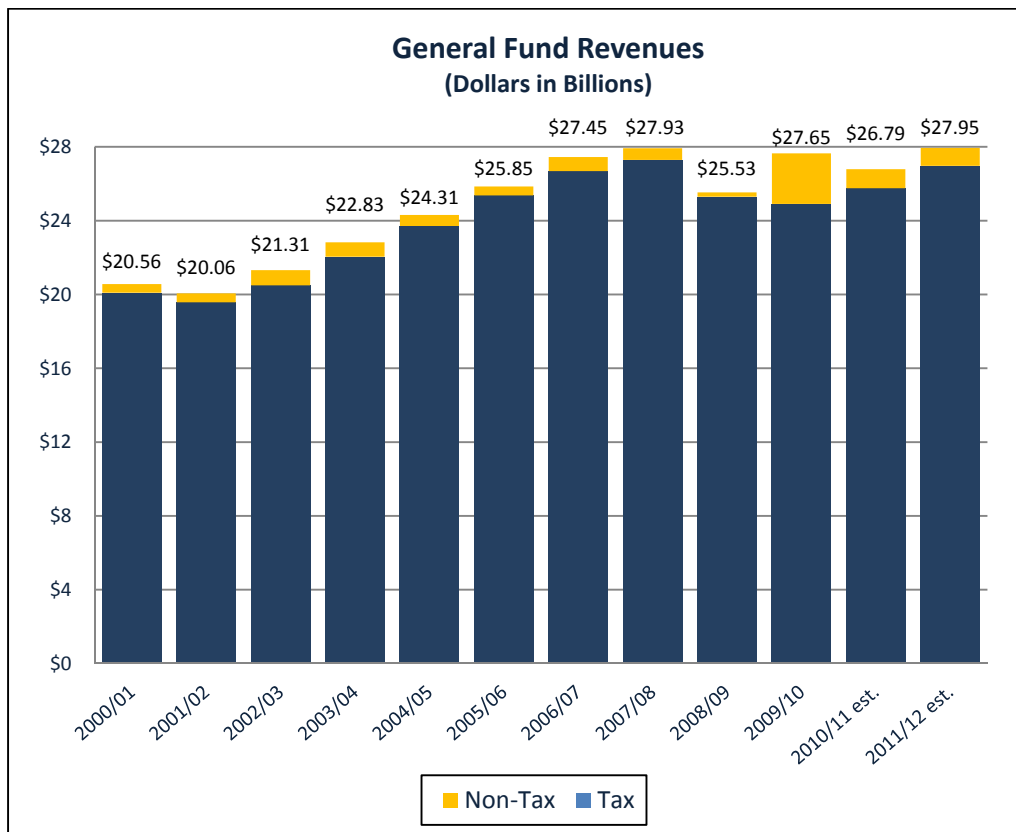
The total amount of state money available to spend each fiscal year includes deposits received in that year, along with the balance carried over from the immediate prior year. Taxes collected from individuals and businesses comprise the largest portion of the state's deposits. Fees and other non-tax revenue (including transfers from other funds) make up the remainder of deposits.

## Outlook for Tax and Non-Tax Revenue

**The Executive Budget projects that General Fund revenue collections will be \$78.4 million over estimate for 2010/11.** Through the end of February 2011, General Fund collections were \$243.2 million over the official revenue estimate. Note the largest collection months are yet to come in March (corporate taxes) and April (personal income tax), which have a major impact on final revenue. Gov. Corbett's updated revenue estimate for 2010/11 is \$26.79 billion; this assumes approximately \$25.8 billion in tax revenues and \$1.0 billion in non-tax revenue of which \$105 million is from liquor store profits.

For 2011/12, Gov. Corbett's budget proposal assumes revenue collections will total \$27.945 billion, representing an overall increase in General Fund revenues of \$1.2 billion, or 4.3 percent. Corbett's **proposal relies upon \$540.1 million in funding modifications** from changes to tax credit programs and transfers from other funds, mainly the Tobacco Settlement Fund. The Administration projects tax receipts will grow almost five percent to \$26.967 billion and non-tax revenues will decrease by 5.5 percent to \$977.7 million. A detailed description of the recommended tax credit changes and fund transfers is below in the Funding Modifications section.

The bar graph on the following page puts the Executive Budget revenue projections in historical context, comparing the estimated General Fund revenues for 2010/11 and 2011/12 with actual General Fund revenue collections from 2000/01 through 2009/10. Although the overall General Fund revenue picture is expected to improve, the 2011/12 estimate barely exceeds the all-time high of \$27.928 billion in 2007/08. In fact, were it not for the proposed funding modifications, estimated revenues for 2011/12 would be \$27.405 billion, below 2006/07 collections.



The bar graph also shows the General Fund use of non-recurring revenues (largely transfers from other funds) to help balance budgets in recent years. This is illustrated by the non-tax portion of General Fund revenues. While the Executive Budget anticipates continued growth in tax collections through 2011/12, it does not expect these recurring General Fund revenues to fully rebound to their 2007/08 peak level of \$25.37 billion.

### Funding Modifications

Although Gov. Corbett does not propose any new taxes or depend on one-time funds from liquor store privatization, the 2011/12 budget does contain proposals for new revenue generated through cuts to currently slated tax credit programs. General Fund revenues also are proposed to be bolstered primarily by transfers from other funds, especially the Tobacco Settlement Fund. The Governor's proposed General Fund revenue modifications total \$540.1 million.

**Net proposed changes of \$9.1 million to tax credit programs are as follows:**

- A decrease of \$15 million in the cap of the **Film Tax Credit** which is expected to result in \$5.1 million of additional revenue in 2011/12.
- A decrease of \$12.4 million in the cap of the **Job Creation Tax Credit** which is expected to result in an additional \$4.2 million in 2011/12.

- An increase of \$15 million in the cap of the **Research and Development Tax Credit** which is expected to result in a revenue loss of \$200,000 in 2011/12.

Gov. Corbett's proposal includes almost **\$531 million in non-tax revenue transfers to the General Fund**. These transfers are as follows:

- \$8.3 million from the **Pennsylvania Higher Education Assistance Agency** through the transfer of unused funds from 2010/11.
- \$44.0 million from the continued redirection of moving violation surcharges authorized by the **Catastrophic Loss Benefits Continuation Fund**, traditionally deposited in the Medical Care Availability and Reduction of Error (MCARE) Fund.
- \$478.6 million from the proposal to move the **Tobacco Settlement Fund** into the General Fund. This would include a \$140 million transfer of the remaining balance as well as \$338.6 million in revenues from the Master Settlement Agreement that would accrue to the General Fund in 2011/12. Note that \$324 million in Tobacco Settlement Fund expenditures would also transfer to the General Fund leaving a net increase in new state General Funds of \$154 million.

This budget provides a **tax benefit this year to corporations worth roughly \$200 million over the current and budget year by allowing 100 percent bonus depreciation**. Corporations that purchase new equipment can depreciate the full value in the current year, as opposed to depreciating it over a period. This lowers the tax liability of corporations in the short-term; however, offsetting tax liability in subsequent years is then higher. This bonus already has been granted to corporations via a policy decision issued by the Department of Revenue in February 2011 and applies to the last quarter of 2010 through 2011. The policy decision resulted from the federal Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, which allows for bonus depreciation on the federal level. State law is ambiguous in relation to federal tax law on this point.

**The Governor's Budget references several other changes to tax rates and tax credits; however, it is important to note that these changes, listed below, are already scheduled to take place as set forth in current statute.**

- Gov. Corbett assumes a reinstatement of the **capital stock and franchise tax** phase-out, a tax reduction worth roughly \$70 million in the budget year. This budget proposal is based on the currently scheduled phase-out set in statute by Act 48 of 2009. The rate set for calendar year 2011 is 2.89 mills; 2012 at 1.89 mills; 2013 at 0.89 mills; and is scheduled to be completely phased-out beginning in 2014.
- The Governor's proposal claims to increase the **Educational Improvement Tax Credit**; however the proposal is commensurate with existing law which increases the program cap from \$60 million to \$75 million as set forth in Act 48 of 2009 and Act 46 of 2010.

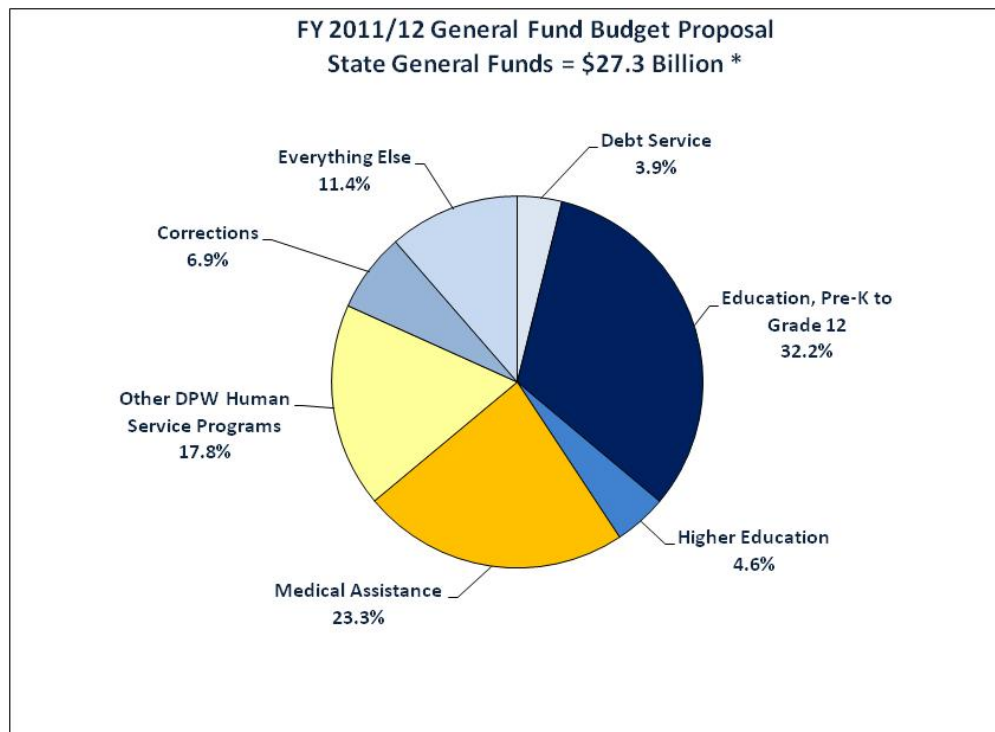
According to the Governor's Executive Budget document, "this budget provides significant tax credits for job creators..." however these tax credit programs are already set in statute at the following identified

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levels: **Neighborhood Assistance Tax Credit** (\$18 million); **Coal Waste Removal and Ultra Clean Fuels Tax Credit** (\$18 million); and **Resource Enhancement and Protection Tax Credit** (\$10 million). He proposes to reduce the **Film Production Tax Credit** (\$60 million) and **Job Creation Tax Credit** (\$10 million).

## Expenditures

The Executive Budget proposes \$27.3 billion in state General Fund expenditures for 2011/12. This request includes \$324 million in program expenditures that were funded previously under the Tobacco Settlement Fund (this is part of Governor Corbett's tobacco funds initiative which is described under the Tobacco Settlement Fund section of this document). The following pie chart shows how the Governor's 2011/12 spending proposal is distributed among major program areas.



\* Includes \$324.1 million of tobacco-funded programs that the Executive Budget proposes to move to the General Fund in 2011/12.

Comparing 2011/12 General Fund expenditures with the current 2010/11 fiscal year is not so clear-cut and requires a brief explanation. A major difficulty is that the federal offset funds (\$3.055 billion) used in 2010/11 and the proposed transfer of Tobacco Settlement Fund expenditures (\$324 million) to the General Fund in the budget year masks a straightforward understanding of the financial statement.

Typically, expenditures reported on the financial statement only would refer to state General Fund appropriations. However, during the federal stimulus period, budget makers have rationalized that the appropriation number should also include federal offset funds used to support the General Fund budget

in order to maintain perspective on state spending trends. The table below illustrates alternative approaches to understanding Corbett's proposed changes to General Fund budget year expenditures: the first approach examines total appropriations (including federal offset funds) and the second focuses only on state General Fund appropriations. Each method is appropriate and provides different but helpful information.

Additionally, for each approach, the table shows the budget year expenditure numbers with and without the proposed transfer of Tobacco Settlement Fund expenditures to the General Fund. Year-to-year comparisons are significantly distorted when expenditures new to the General Fund in the budget year are spent from a different fund in the prior year. Because the Tobacco Settlement Fund expenditures were not part of the 2010/11 General Fund Budget, their inclusion in the budget year exaggerates the growth in General Fund expenditures by \$324 million. Removing these expenditures facilitates a more appropriate comparison between the two fiscal years.

Proposed General Fund - Expenditures Analysis 2011/12 Governor's Executive Budget Proposal <i>(in millions of dollars)</i>					
	2010/11 Updated \$'s	2011/12 With Tobacco Fund Expenditures		2011/12 Without Tobacco Fund Expenditures	
		\$'s	Change	\$'s	Change
Appropriations *	\$28,035	\$27,331		\$27,007	
Plus: Supplemental Appropriations	\$163	\$0		\$0	
<b>Expenditures</b>	<b>\$28,198</b>	<b>\$27,331</b>	<b>-\$867</b>	<b>\$27,007</b>	<b>-\$1,191</b>
Less: Federal Offset Funds	<b>-\$3,055</b>	\$0		\$0	
<b>Subtotal - State Appropriations Only</b>	<b>\$25,143</b>	<b>\$27,331</b>	<b>\$2,188</b>	<b>\$27,007</b>	<b>\$1,864</b>

The Governor's "Budget Highlights" show his proposed General Fund budget declining by \$866 million from \$28.198 billion in the current year to \$27.331 billion in 2011/12. The decline represents a comparison between the spending request for 2011/12, which includes the transfer of Tobacco Settlement Fund expenditures, and an updated 2010/11 spending number that includes federal offset funds (\$3.055 billion) and supplemental appropriations (\$163 million). This approach provides an understanding that accounts for the disappearance of federal offset funds and is the approach referenced in the Governor's literature. **The more appropriate comparison, after accounting for the shift of Tobacco Settlement Fund expenditures into the General Fund, shows spending actually declines by \$1.2 billion dollars** – this is the approach used in Attachment C which compares state appropriations plus federal offsets, by agency, for fiscal years 2009/10 through 2011/12.

To understand what is happening with state-only funds in the General Fund, a further adjustment is made to 2010/11 expenditures to remove federal offset funds and focus on the state appropriations only. Under this approach, state spending in the Governor's 2011/12 budget proposal increases by nearly \$2.2 billion, instead of declining \$866 million. State-only spending increases by \$1.9 billion

instead of \$2.2 billion after accounting for the Tobacco Settlement Fund adjustment – this is the approach used in Attachment A which compares agency state General Fund budgets for fiscal years 2009/10 through 2011/12.

These issues clearly illustrate an earlier observation about the importance of monitoring **combined** operating funds and how focus on a single fund can significantly distort the facts. As a reminder, the **combined** operating budget for 2011/12 declines by almost \$3.3 billion compared with the current year, a much more accurate snapshot of the proposed fiscal picture than the above analysis of General Fund spending.

**As a result of the shifting of expenditures between the General Fund and other state funds and special funds, budget year General Fund expenditures represent a much higher proportion of combined operating funds compared with the current year.** In 2010/11 General Fund expenditures represented approximately 63 percent of total state spending, whereas the 2011/12 budget proposes General Fund expenditures that represent approximately 66 percent of total state spending. Consequently, expenditures in special and other state funds shifted from 37 percent down to 34 percent of total state expenditures for the same respective fiscal years. **This shift represents a movement of expenditures that were previously covered by special and other funds to the General Fund. As a result, total General Fund spending cuts appear less severe.**

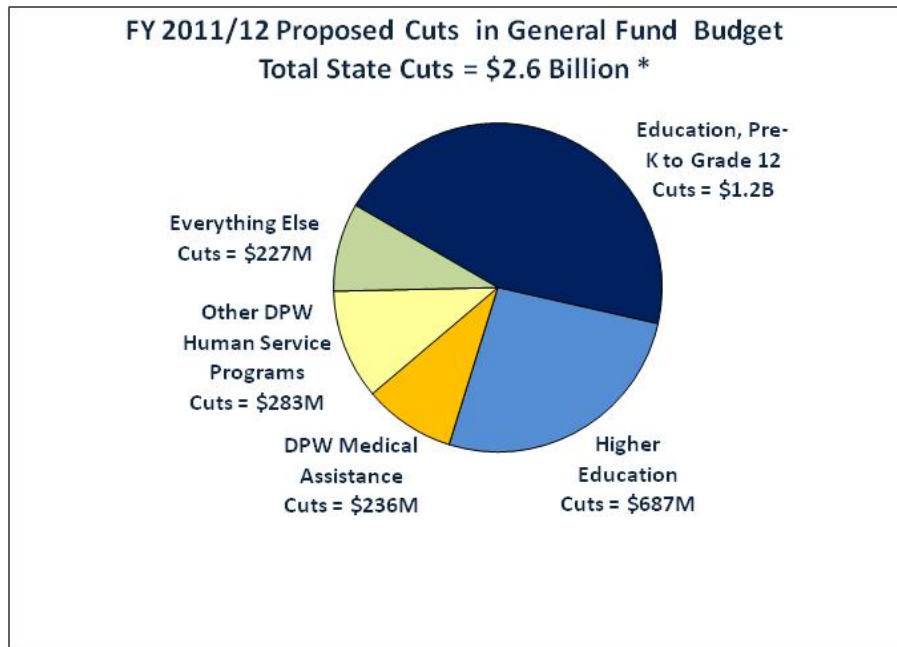
As mentioned previously, **Gov. Corbett’s budget proposal primarily addresses the loss of ARRA funding and one-time revenue sources with significant cuts to appropriations compared with current year levels.** However, budget drivers such as pension costs, constitutionally required debt service payments, and growth in Corrections and safety net services continue to increase state spending.

Gov. Corbett proposes the **largest cuts to the following agency budgets.** Note that this comparison includes state and federal offset funds in 2010/11 and excludes tobacco-funded programs which the executive budget proposes to transfer to the General Fund for 2011/12.

- **Education:** including K-12 education, libraries, non-preferred higher education appropriations, State System of Higher Education, and the Pennsylvania Higher Education Assistance Agency;
- The **Department of Community and Economic Development;**
- The **Department of Labor and Industry;** and
- The **Department of Health.**

However, changes in an agency’s overall state budget represent the net sum of increases and decreases to individual appropriations and programs within that budget. Consequently, an agency’s bottom line does not capture the actual funding cuts within that agency budget. We have identified \$2.6 billion in cuts within the 2011/12 state General Fund budget proposed by Governor Corbett. This analysis includes **appropriations reduced or eliminated, as well as cost-containment initiatives in the Department of Public Welfare.**

The pie chart that follows shows how the \$2.6 billion in state General Fund cuts are distributed by program area. As we had anticipated, the vast majority of the cuts fall within the areas of education and public welfare. Education would be cut by \$1.86 billion, representing 71 percent of total cuts. Public Welfare would be cut by \$519 million, representing of 20 percent of total cuts. The remaining cuts are distributed throughout other agencies and programs.



\*Amount based on comparison between FY 2011/12 state General Fund appropriations and FY 2010/11 state General Fund appropriations plus federal ARRA funds.

The following sections discuss General Fund budget issues as well as significant budget and policy changes by agency (in alphabetical order). As more details emerge regarding Gov. Corbett's proposed budget and policy changes, our office will continue to provide up-to-date, detailed analyses. Again, for detail on expenditure levels for individual appropriations, please reference our spreadsheet document "*Governor's Proposed 2011/12 Budget: State and Federal Appropriations (General Fund) – March 11, 2011*," available on our website ([www.hacd.net](http://www.hacd.net)).

### Pension Contributions

Prior to the enactment of Act 120 of 2010, both the **Public School Employees Retirement System (PSERS)** and the **State Employees Retirement System (SERS)** faced a dramatic contribution rate spike in 2012/13. Without this legislative action, combined total employer contributions (based upon percentage of payroll) would have risen to approximately \$5.8 billion (\$4.2 billion for PSERS and \$1.7 billion for SERS). The General Fund portion of this total cost would have been \$3.1 billion.

For PSERS, the employer contribution rate would have **increased** from 10.22 percent in 2011/12 to more than 28.71 percent in 2012/13, equating to **additional** contributions of \$2.7 billion, affecting school



districts and the Commonwealth. For SERS, the employer contribution rate would have **increased** from 8 percent in 2011/12 to more than 26 percent in 2012/13, equating to **additional** contributions of more than \$1.2 billion. **The General Fund only portion of this combined increase in 2012/13 would have been \$2.1 billion and local school districts would have experienced an increased cost of \$1.2 billion.**

Act 120 of 2010 (House Bill 2497), tempered this dramatic rate spike by instituting changes to the actuarial methodology, reducing benefits for future employees, and applying contribution rate “collars” to smooth the impact of the spike. **As a result of Act 120, the General Fund will realize a reduction of retirement expenditures of approximately \$122 million in 2011/12, \$1.8 billion in 2012/13 and \$1.6 billion in 2013/14, compared to previous projections.** The chart below compares employer contribution rates and the **General Fund** portion of expected costs with and without the enactment of Act 120. This chart has been updated to reflect PSERS current actuarial valuation data.

Fiscal Year	Total Estimated Cost prior to Act 120 of 2010				Total Estimated Cost as a result of Act 120 of 2010				GENERAL FUND SAVINGS (in millions)
	Employer Contribution Rate		General Fund State Share (in millions)		Employer Contribution Rate		General Fund State Share * (in millions)		
	PSERS	SERS	PSERS	SERS	PSERS	SERS	PSERS	SERS	PSERS + SERS
2010-11	5.64%	5.00%	\$419.1	\$148.5	5.64%	5.00%	\$419.1	\$148.5	\$0
2011-12	10.22%	8.00%	\$793.2	\$245.5	8.65%	8.00%	\$671.6	\$245.5	\$122
2012-13	28.71%	26.71%	\$2,299.9	\$846.0	12.19%	11.50%	\$976.8	\$364.0	\$1,805
2013-14	31.20%	29.27%	\$2,579.3	\$957.5	16.69%	16.00%	\$1,380.0	\$523.5	\$1,633
2014-15	32.35%	27.77%	\$2,762.8	\$938.5	21.18%	20.50%	\$1,809.0	\$693.0	\$1,199
2015-16	31.66%	27.51%	\$2,796.2	\$960.5	23.66%	25.00%	\$2,089.5	\$873.0	\$794
2016-17	31.13%	27.14%	\$2,846.3	\$978.5	24.50%	28.25%	\$2,240.2	\$1,018.5	\$566
2017-18	30.47%	26.69%	\$2,886.8	\$994.5	25.27%	27.79%	\$2,394.2	\$1,035.5	\$452

NOTE: Governor's proposed budget provides \$615,086,000 for PSERS General Fund state share in 2011/12. This decrease is attributed to the quarter lag in the state's payment.

\*General fund state share assumes 55% of total for PSERS and 50% of total for SERS

PSERS quarter lag is not part of calculations

**Gov. Corbett's 2011/12 proposed budget accounts for the contribution rates set forth in Act 120 of 2010.** A quarter lag in Commonwealth payments accounts for the difference between the proposed budget's \$615 million and the above chart's projection of \$672 million.

In 2010/11, the Tobacco Settlement Fund subsidized \$121 million of the General Fund portion of the school employers' pension contribution amount. For 2011/12, the budget proposal assumes full payment of these costs from the General Fund "School Employees' Retirement" appropriation under the Department of Education. Note a portion of the employer contribution amount pays for the health care

costs, keeping in line with the tradition of Tobacco Settlement Funds being linked to health care related expenditures.

### **Pennsylvania Employee Benefits Trust Fund**

**The Pennsylvania Employees Benefits Trust Fund (PEBTF) was created as the result of a collective bargaining agreement between the Commonwealth of Pennsylvania and Council 13 of the American Federation of State, County and Municipal Employees (AFSCME). The company administers health care insurance benefits to approximately 84,000 eligible state employees and their dependents, 60,000 retirees and their dependents, as well as additional employer groups, such as active employees at the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS).**

In order to avoid rolling furloughs of employees, Governor Rendell and union representatives agreed to a Memorandum of Understanding (MOU) in 2009. Because the PEBTF fund had a significant reserve balance, **the Commonwealth payments to PEBTF were temporarily reduced by 20 percent over a 15 month period (April 2009 through June 2010), resulting in a savings to the Commonwealth of approximately \$177 million. Repayment of this "loan" was set to begin in the fall of 2010.**

Currently, the Corbett Administration is engaged in talks with union representatives regarding PEBTF payment assumptions in 2010/11 and 2011/12. Note the numbers assumed for both years in the Executive Budget document reflect maintaining a reduced payment of \$400 per employee, as under the aforementioned MOU agreement. These assumptions result in a savings of an additional \$70-75 million in 2010/11 and a savings of nearly \$82 million in 2011/12.

### **Commonwealth Debt**

The Governor's Executive Budget calls for increased state appropriations to the Treasury. The increase largely is driven by **General Obligation debt service costs**. The General Obligation debt service appropriation under Treasury has increased by \$81.5 million over the prior year's levels, to \$1.056 billion.



Even with the increases in debt service, Pennsylvania's debt levels are very manageable. **The Commonwealth currently enjoys solid bond ratings**. Pennsylvania's ratings are Aa1 from Moody's Investor Service, AA from Standard and Poor's Rating Service and AA+ from Fitch Investors. According to Standard & Poor's criteria, debt as a percent of personal income below three percent is considered a "low debt burden." Pennsylvania's ratio is currently 2.3 percent.

### **Agriculture**

Under the Governor's budget proposal for 2011/12, **the Department of Agriculture receives a number of cuts**, many carrying forward budgetary freezes from the 2010/11 budget. The following programs would be **eliminated: Agricultural Excellence, Agriculture Research, Agriculture Promotion, Education and Exports, Hardwoods Research and Promotion, Animal Indemnities, Livestock Show, Open Dairy Show, Food Marketing and Research, Crop Insurance, and Farm School Nutrition.**

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As in other agencies, Gov. Corbett proposes the consolidation of numerous lines in the department.

Agency/Existing Program		Proposed Program
<b><u>Agriculture</u></b>		
-		-
Governor's Advisory Council on Rural Affairs		General Government Operations
Agricultural Conservation Easement Administration		
Nutrient Management Administration		
Junior Dairy Shows		Youth Shows
4-H Club Shows		
Future Farmers		

The proposal includes **an increase for the Weights and Administration** (through the Motor License Fund) to cover six additional positions.

This budget proposal transfers the appropriation for the **University of Pennsylvania's Veterinary Activities** from Education to Agriculture (Veterinary Activities and Center for Infectious Disease). Gov. Corbett's proposal also **transfers the Governor's Advisory Council on Rural Affairs** from the Executive Offices to the Department of Agriculture.

### Board of Probation and Parole

The Governor's 2011/12 budget proposes \$128.1 million for the **Pennsylvania Board of Probation and Parole (PBPP)**. This is a 6.3 percent increase or \$7.5 million more than 2010/11. The Governor indicates that this **increase is for additional parole officers (53) and investigators (2) to deal with the backlog of inmates eligible for parole**. Inmates cost the Commonwealth approximately \$35,000 per year to supervise under the Department of Corrections versus \$3,000 per year for supervision under Probation and Parole.

While PBPP's General Government Operations appropriation and the Sexual Offenders Assessment Board will receive increases in funding, funding for **Improvement of Adult Probation Services** is cut nearly two percent. **This reduction will affect county reimbursements.**

### Community and Economic Development

The overall budget for the **Department of Community and Economic Development (DCED)** has been reduced by 32 percent, or approximately \$106 million. Similarly, **127 programs funded in FY10/11 have been reduced to 57 programs** in the Governor's proposal.

Of equal importance, **regulatory reforms advanced by Corbett's budget will significantly expand the authority of the DCED Secretary to "expedite any permit or action pending in any agency where the creation of jobs may be impacted."**

Gov. Corbett's budget **proposes a significant redesign of DCED through the elimination, reduction, and consolidation of multiple programs.**







Gov. Corbett's budget proposes a restructure of DCED programs aimed to foster opportunities for business and communities based upon three core principles: forging partnerships with the private sector, advancing performance based initiatives, and increasing the level of competition for state resources.

Gov. Corbett's proposal provides for **the Liberty Loan Fund Authority and Liberty Loan Fund (LLF), a \$2 billion fund** overseen by a new authority. This program is intended to pool existing economic development financing resources for purposes of leveraging private investment for economic development opportunities. Importantly, the Governor's proposal would **dissolve the existing Commonwealth Finance Authority (CFA) and Pennsylvania Industrial Development Authority (PIDA).** In addition, the proposal would use **\$220 million in Tobacco Settlement Funds, traditionally used for health related purposes for this new Liberty Loan Fund.** Further discussion can be found in the section entitled "Tobacco Settlement Fund" later in this document.

The table on the following page provides a listing of the programs/funds incorporated into the LLF.

Agency/Existing Program	Proposed Program
<b><u>Community &amp; Economic Development</u></b>	
Alternative and Clean Energy Program	
Building PA	
Business in Our Sites Grants and Loans	
Community Economic Development Loan Program	
Commonwealth Financing Authority	
First Industries Agriculture	
First Industries Tourism	
H2O Programs (Flood Control, High Hazard Unsafe Dam Projects, Water Supply, Sanitary Sewer and Storm Water Projects)	
High Performance Building Program	
Pennsylvania Industrial Development Authority	
Machinery and Equipment Loan Fund	
Pennsylvania Minority Business Development Authority	Liberty Loan Fund (LLF)
Pennsylvania Pollution Prevention Assistance Program	
Renewable Energy Program-Geothermal and Wind Projects	
Second State Loan Program	
Solar Energy Program	
Tax Increment Financing Program	
Water Supply and Wastewater Infrastructure Program	
Small Business First Fund	
Tobacco Settlement Fund Investments	

Gov. Corbett also includes the consolidation of the appropriations detailed in the following table:

Agency/Existing Program	Proposed Program
<b><u>Community &amp; Economic Development</u></b>	
Marketing to Attract Tourists Tourist Promotion Assistance	-  - Marketing to Attract Tourists
PennPort Operations Port of Pittsburgh Port of Erie Philadelphia Regional Port Authority Operations Navigational System Goods Movement and Intermodal Coordination	-  - PennPORTS
Opportunity Grant Program Customized Job Training Infrastructure Development	-  - Pennsylvania First
Shared Municipal Services Land Use Planning and Technical Assistance Program Flood Plain Management	-  - Municipal Assistance Program
Accessible Housing Housing & Redevelopment Assistance New Communities* (includes Enterprise Zone Program, Main Street Program, Elm Street Program)	-  - Keystone Communities
Industrial Development Assistance Local Development Districts Small Business Centers Industrial Resource centers	-  - Partnerships for Regional Economic Performance

Gov. Corbett's budget proposal includes \$10 million for **"Discovered in PA, Developed in PA."** According to the proposal, this **new program** will help small businesses identify and access the appropriate services and financing to help them be more competitive and grow their operations in the Commonwealth.

Corbett's proposal also provides \$6.3 million for **World Trade PA** to promote Pennsylvania goods and services in key international markets. The proposed budget continues funding to the **Ben Franklin Technology Development Authority** (\$14.6 million) to advance technology-based and technology-intensive industries in Pennsylvania. Lastly, Gov. Corbett continues funding for the **Life Sciences Greenhouses**, historically funded through the Tobacco Settlement Fund.

### Conservation and Natural Resources

Gov. Corbett's budget proposal drastically **reduces** overall state General Funds for the **Department of Conservation and Natural Resources** by \$24.1 million (29.3 percent) from the current year funding of \$58.3 million. This reduction reflects decreases from the current year funding of \$18.6 million (39.9 percent) to State Park Operations, \$4.1 (34.1 percent) to State Forest Operations, and \$1.2 million (6.3 percent) from General Government Operations.

These **decreases are offset by an increase of \$32.9 million from other state cash funds and augmented revenues.** This includes \$16.5 million from the **Oil and Gas Lease Fund** and \$15.4 million from the **Keystone Recreation, Park and Conservation Fund.**

### Corrections

The Governor's 2011/12 budget proposes nearly \$1.9 billion in state funds for the **Department of Corrections (DOC)**, an increase of \$186.5 million or 11 percent over last year. Remember, the Commonwealth used \$173 million in federal offset funds for Corrections during the 2009/10 and 2010/11 fiscal years. While the **General Government Operations** appropriation for DOC will see a one percent decrease in funding, the proposed budget increases **Medical Care** (0.4 percent), **Inmate Education and Training** (0.4 percent), and the **State Correctional Institution** (13.5 percent) appropriations. This proposal eliminates 23 positions under General Government Operations. Note that the Commonwealth is constitutionally obligated to provide inmate medical care.

As of December 2010, there were 51,321 inmates, a decrease of 50 inmates from January 2010. Pennsylvania's State Correctional Institutions at full capacity hold 43,584 inmates. There are currently 2,180 inmates housed in prisons in Michigan and Virginia who Gov. Corbett proposes to return to the Commonwealth. **In addition, this budget proposal provides 1,260 new beds within existing institutions and community corrections centers.**

## Education

### *Pre-K through 12 Education*

Gov. Corbett proposes more than **\$1.1 billion in spending cuts for Pre-K through 12 education programs in the Department of Education (PDE)**. When including increases in mandatory reimbursement line items such as Pupil Transportation and School Employees' Retirement, the proposed budget shows a net reduction of nearly \$819 million, or 8.2 percent.

Corbett's budget proposal includes a **reduction in the total basic education subsidy of \$550 million, or 9.5 percent**, from \$5.8 billion in 2010/11 to \$5.2 billion in 2011/12. **This proposed funding represents a rollback to the 2008/09 level.**

The spreadsheet posted on Department of Education's website, as of March 22, 2011, reflects only the state funding that school districts received in 2010/11. When comparing only state funds for 2010/11, it appears that funding increased for many schools. In fact, school districts received an additional \$654 million in federal ARRA funds as part of their basic education subsidy payment for 2010/11. Comparing the total basic education subsidy payments from 2010/11 to 2011/12, basic education funding for school districts is cut by \$550 million.

Gov. Corbett's proposal eliminates the current **basic education subsidy funding formula**, resulting from the General Assembly's passage of the Costing-Out Study and used in the past three fiscal years. **Corbett proposes a new funding formula** that provides districts with the state share only from 2010/11, a base supplement of \$100 per student, and other allocations based upon calculations using the concentration of English Language Learner (ELL) students, district poverty level, and district size. The amount of funding received depends upon a district's relative wealth and tax effort. **Gov. Corbett's proposed funding formula does not calculate adequate and equitable spending using a calculation of each district's actual spending as did the Costing-Out Study formula.**



Gov. Corbett has proposed **eliminating a number of programs** within PDE, shown in the following table.

<b><u>Eliminated Programs in Education (Pre-K through 12)</u></b> <i>(in thousands)</i>	
<b>Program</b>	<b>2010/11 Amount</b>
Reimbursement of Charter Schools	\$224,000
Pennsylvania Accountability Block Grants	\$259,000
Education Assistance Program	\$47,600
Intermediate Units (IU) <sup>1</sup>	\$4,800
Dual Enrollment <sup>2</sup>	\$7,000
Science: It's Elementary	\$6,900
High School Reform	\$1,800

<sup>1</sup>The governor's proposal suggests that some funding remains in the GGO to assist some IU's. Additionally, IU's would still receive funding from lines such as special education, early intervention, and non-public school services.

<sup>2</sup>For Dual Enrollment payments, the proposed budget indicates that students will be able to utilize a portion of their basic education funding for dual enrollment. The governor has stated that students in their final years of high school should have opportunities to acquire post-secondary credits and that school districts should consider modifying their resource allocations to provide students with this opportunity.

In addition to the basic education subsidy, Gov. Corbett proposes the **reduction of numerous programs** in PDE, as seen in the table that follows.

<b><u>Reduced Programs in Education (Pre-K through 12)</u></b> <i>(in thousands)</i>		
<b>Program</b>	<b>\$ Cut from 2010/11</b>	<b>% Cut from 2010/11</b>
State Library	(\$164)	-7.3%
Pre-K Counts	(\$1,600)	-1.9%
Teacher Professional Development	(\$14,300)	-66.0%
Adult and Family Literacy	(\$2,500)	-17.0%
Education of Migrant Laborers' Children	(\$181)	-17.0%
Services to Nonpublic Schools	(\$1,100)	-1.2%
Textbooks, Materials and Equipment for Nonpublic schools	(\$477)	-1.8%
Public Library Subsidy	(\$1,000)	-1.9%

Gov. Corbett also decreases the mandated School Employees' Social Security payment by more than \$21 million under the 2010/11 payment. The Governor proposes changing the formula for the Commonwealth's social security reimbursement payment. Under Act 29 of 1994, an equity component was introduced for the Commonwealth's portion of social security and retirement reimbursement for schools. For employees hired after 1994, schools were reimbursed for the greater of their aid ratio or 50 percent of the employer's share. This means school districts with aid ratios less than 0.5 were reimbursed at the 50 percent rate. The Governor proposes reimbursing school districts at the aid ratio level for each district. **For 158 districts, this reimbursement level will be less than 50 percent.** This change is actually a savings to the state (but a cost to school districts) of approximately \$40 million of what the Commonwealth would have paid for 2011/12 under the current formula. Because this formula is in statute, legislation will be required for this change to take effect.

In addition to mandated increases in appropriations such as Pupil Transportation and School Employees' Retirement, the proposed budget includes some discretionary increases.

<b>Increased Discretionary Programs in Education (Pre-K through 12)</b>		
<i>(in thousands)</i>		
<b>Program</b>	<b>\$ Inc from 2010/11</b>	<b>% Inc from 2010/11</b>
Information and Technology Improvement	\$1,800	70.0%
PA Assessment	\$4,000	12.2%
School Nutrition Incentive Program <sup>1</sup>	\$451	15.7%
Early Intervention <sup>2</sup>	\$16,000	8.8%
<sup>1</sup> Formerly Rx for PA – School Food Services		
<sup>2</sup> For program expansion		

Gov. Corbett's budget proposal also includes \$2.2 million for a new Safe School Initiative. This is required due to the passage Act 104 of 2010 (amending the school code), which creates a PDE-based Office for Safe Schools.

With his 2011/12 budget proposal, Gov. Corbett proposes major educational policy changes as detailed in the following table.

<b>MAJOR EDUCATION POLICY CHANGES GOV. CORBETT'S 2011/12 BUDGET PROPOSAL</b>
<b>For Teachers and Staff:</b>
Calls for all school district personnel to accept a one-year salary freeze.
Eliminates salary increases for teachers due to attainment of a master's degree.
Eliminates reimbursement for any tuition costs incurred by educators.
Allows for school districts to suspend professional employees for economic reasons without regard to tenure.
Provides funds for the development of a model merit pay program for teacher.
Discourages the employee tenure system by providing funding for a new teacher and principal evaluation system.
Allows for school districts to hire teachers with alternative certifications.
Waives the current certification requirement for school nurses. Nurses would need only complete in-service training to become a school nurse.
<b>For School Districts:</b>
Requires school districts to get voter referendum approval for any property tax increase above the inflationary increase.
Permits students in failing school districts to attend another public or nonpublic school.
Parents can "trigger" a turnaround in low performing schools. Additional details are not available at this time.
Public schools may apply for some of the same mandate waivers available to charter schools, and also apply for waivers of state law and regulations (except for student health and safety).
Increases the competitive bid limits currently in place for school districts to from \$10,000 to \$25,000.
Establishes an independent state charter school authorizer. This entity will approve new charter and cyber charter schools and renewals for existing schools, handle appeals, and assume oversight of existing cyber charter schools.
Changes the current standards for charter schools: allows charter schools to use school district facilities that are currently unused, provides charters with first refusal rights when a public school is disposing of a district building, recommends performance contracts for educational service providers, and holds board members and administrators to the Pennsylvania Ethics Act.
<b>Additional Policy/Funding Changes:</b>
Provides no funding for the Keystone Exams in 2011/12. The anticipated cost for 2011/12 was \$20 million; however, the governor's proposal indicates that these are "on-hold" for one year. The testing scheduled for May 2011 using the existing Keystone Exams in Algebra I, Biology, and Literature will continue.
Reinstates and expands the mandate waiver program.
Eliminates the Distinguished Educator's program, Classrooms for the Future program, and the National Board Teacher Certification Program. These were previously funded in the Teacher Professional Development line.

NOTE: Some changes (such as one-year salary freezes and the elimination of both master's degree salary increases and tuition reimbursement) are beyond the governor's direct authority as they are part of the local bargaining unit agreements at each school district.

### Higher Education

**Governor Corbett drastically reduces funding for higher education.** Federal ARRA funds were used to fund institutions of higher education over the past three fiscal years. The 2010/11 budget used \$93.2 million in ARRA funding which is no longer available. In addition, large reductions in state dollars also have been proposed in the executive budget. **Funding for community colleges, the State System of Higher Education, Thaddeus Stevens College of Technology and the state-related universities are detailed in the following table.**

<b>Higher Education: State and ARRA Funds</b>					
	<b>2009/10</b>	<b>2010/11</b>	<b>2010/12</b>	<b>Net Change</b>	<b>% Change</b>
<b>Community Colleges</b>	<b>\$235,741</b>	<b>\$235,741</b>	<b>\$212,167</b>	<b>(\$23,574)</b>	<b>-10.0%</b>
<i>State</i>	\$214,217	\$214,217	\$212,167	(\$2,050)	
<i>ARRA</i>	\$21,524	\$21,524	\$0	(\$21,524)	
<b>State System of Higher Education</b>	<b>\$503,355</b>	<b>\$503,355</b>	<b>\$232,599</b>	<b>(\$270,756)</b>	<b>-53.8%</b>
<i>State</i>	\$465,197	\$465,197	\$232,599	(\$232,598)	
<i>ARRA</i>	\$38,158	\$38,158	\$0	(\$38,158)	
<b>Pennsylvania State University</b>	<b>\$333,863</b>	<b>\$333,863</b>	<b>\$165,094</b>	<b>(\$168,769)</b>	<b>-50.6%</b>
<i>State</i>	\$318,072	\$318,072	\$165,094	(\$152,978)	
<i>ARRA</i>	\$15,791	\$15,791	\$0	(\$15,791)	
<b>University of Pittsburgh</b>	<b>\$167,995</b>	<b>\$167,995</b>	<b>\$80,245</b>	<b>(\$87,750)</b>	<b>-52.2%</b>
<i>State</i>	\$160,490	\$160,490	\$80,245	(\$80,245)	
<i>ARRA</i>	\$7,505	\$7,505	\$0	(\$7,505)	
<b>Temple University</b>	<b>\$172,737</b>	<b>\$172,737</b>	<b>\$82,487</b>	<b>(\$90,250)</b>	<b>-52.2%</b>
<i>State</i>	\$164,974	\$164,974	\$82,487	(\$82,487)	
<i>ARRA</i>	\$7,763	\$7,763	\$0	(\$7,763)	
<b>Lincoln University</b>	<b>\$13,782</b>	<b>\$13,782</b>	<b>\$6,812</b>	<b>(\$6,970)</b>	<b>-50.6%</b>
<i>State</i>	\$13,623	\$13,623	\$6,812	(\$6,811)	
<i>ARRA</i>	\$159	\$159	\$0	(\$159)	
<b>Thaddeus Stevens College of Technology</b>	<b>\$10,876</b>	<b>\$10,876</b>	<b>\$9,788</b>	<b>(\$1,088)</b>	<b>-10.0%</b>
<i>State</i>	\$8,550	\$8,550	\$9,788	\$1,238	
<i>ARRA</i>	\$2,326	\$2,326	\$0	(\$2,326)	

Gov. Corbett **eliminates** the following higher education line items under the Pennsylvania Department of Education: **Regional Community College Services, Higher Education Assistance, Community Education Councils and Medical College in Northeast PA.**

Under the **Pennsylvania Higher Education Assistance Agency (PHEAA)**, Gov. Corbett **cuts the Grants to Students line item by \$7.3 million or 1.9 percent**, to \$380.9 million. The Institutional Assistance Grants program would be reduced by 50 percent or \$15 million.

In addition, Gov. Corbett **eliminates** additional programs under PHEAA: the **Bond-Hill Scholarships, Agricultural Loan Forgiveness, SciTech and Technology Scholarships, Cheney Keystone Academy** and the **Nursing Shortage Initiative**.

Also, note two appropriations have been moved from the Department of Education to PHEAA in the Governor's proposal (Higher Education for the Disadvantaged and Higher Education of Blind or Deaf Students). Both appropriations are reduced by 1.9 percent.

### **Emergency Management Agency**

The budget proposal reduces overall state General Funds for the **Pennsylvania Emergency Management Agency (PEMA)** by \$3.2 million (24.6 percent) from the current year funding of \$12.8 million. This reduction reflects the elimination of funding for **regional events security** (\$3 million) and for the **Red Cross Extended Care Program** (\$200,000).

### **Environmental Protection**


In the **Department of Environmental Protection (DEP)**, the Governor's proposal reduces state funding by \$7.3 million (5 percent) from the current year funding of \$45.5 million (excluding funding for the Environmental Hearing Board). This reduction reflects the **elimination of Flood Control Projects (\$3.5 million)** and the **reduction of \$2.1 million from General Government Operations**.

Total funding to the Department is drastically decreased by \$160.0 million (19.1 percent) from current year funding of \$839.3 million. This decrease largely reflects the elimination of \$128.9 million from the American Recovery and Reinvestment Act (ARRA) of 2009 for: energy conservation and efficiency planning; survey studies; water quality management planning grants; and providing corrective actions for the above and underground storage leaks.

The Governor's proposal **decreases the agency's total complement by 69 full-time equivalent positions (FTE)**. These reductions will come from environmental protection operations (30 FTE), environmental program management (20 FTE), flood control projects (14 FTE), and General Government Operations (5 FTE).



**Executive Offices**

The Governor proposes to **consolidate several commissions** within the Executive Offices.

Agency/Existing Program	Proposed Program	
<b><u>Executive Offices - Commissions</u></b>		
Latino Affairs Commission		Office of Public Liaison
Commission for Women		
African-American Affairs Commission		
Asian-American Affairs Commission		

***Pennsylvania Commission on Crime and Delinquency***

Gov. Corbett’s 2011/12 budget proposal cuts **General Government Operations for the Commission on Crime and Delinquency (PCCD)** by \$150,000. In addition, his proposal consolidates many PCCD programs.

Agency/Existing Program	Proposed Program	
<b><u>Executive Offices - Public Safety</u></b>		
Evidence-Based Prevention and Intervention		Violence Prevention Programs
Research-Based Violence Prevention		
Intermediate Punishment Programs		Intermediate Punishment Treatment Programs
Intermediate Drug and Alcohol Treatment		
Improvement of Juvenile Probation Services		Juvenile Probation Services
Specialized Probation Services		

The **Intermediate Punishment** programs listed above are alternatives to county jail and are more cost effective for non-violent offenders.

Corbett eliminates the **Victims of Juvenile Crime** appropriation.

### *Juvenile Court Judges Commission*

Gov. Corbett's proposed 2011/12 budget increases the appropriation for the **Juvenile Court Judges' Commission** by \$200,000 or \$2.5 million. However, the budget proposal slightly reduces the accompanying **Juvenile Probation Services** appropriation.

### **Fish and Boat Commission**

The duties of the **Fish and Boat Commission** are almost entirely supported by fishing licenses, boating registration fees, and the implementation of various federal programs. However, the Governor's proposal eliminates the \$17,000 state General Fund support for the **Atlantic States Marine Fisheries Commission** which focuses on responsible stewardship of marine fisheries resources.

### **General Assembly**

Gov. Corbett's budget proposal includes a **\$4 million spending reduction for the General Assembly**. While Senate caucus operations (R/D) were trimmed by \$1 million, House accounts were reduced by \$3 million. Specifically, Corbett proposes **elimination of the Legislative Office for Research Liaison (LORL)**, as well as reductions for the accounts of House Employees (R/D), Special Leadership (R/D), and Legislative Management Committee (R/D).

While Corbett proposes the elimination of LORL, funding for the Legislative Budget and Finance Committee, Joint State Government Committee, Local Government Commission, Joint Legislative Air and Water Pollution Control Committee, Legislative Audit Advisory Commission, and Center for Rural Pennsylvania is held harmless at 2010/11 levels.

### **General Services**

Gov. Corbett's 2011/12 budget proposes a small increase in the **Department of General Services (DGS)**, attributable to increasing rental and municipal charges. Specifically, the Rental and Municipal Charges appropriation provides funding for the Commonwealth's lease obligations, operating costs and tax commitments with: the Harristown Development Corporation and the Harrisburg Parking Authority in Harrisburg; two office locations in Philadelphia; four office locations in Pittsburgh; and the Samter Building located in Scranton.

The Department of General Services received \$500,000 in 2009/10 and \$500,000 in 2010/11 of Federal Fiscal Stabilization funds due to the appointment of the DGS Secretary to serve as the Commonwealth's Chief Implementation Officer for ARRA. Upon his retirement, in September 2010, this function was transferred to the Office of Budget, Office of Administrative Services.

The Governor proposes a **reduction in DGS funding for Temporary Fleet Vehicles**. The Temporary Fleet Vehicle Program, as provided under Section 2407 of the Administrative Code of 1929, supplies Commonwealth employees temporary transportation necessary to conduct official Commonwealth Business.

During his campaign for Governor, Corbett claimed he would reduce the state automotive fleet by up to 20 percent. Notably, in March Acting Secretary of the Department of General Services stated as follows:



“At DGS, we have already begun working on the Governor’s reform plan, setting ambitious attainable goals. The Bureau of Vehicle Management is conducting an audit of the state’s vehicles to determine the most cost effective size and use of the automotive fleet. This includes reviewing employee mileage reimbursements to ensure they are utilizing the least expensive mode of travel.”

**Health**

Gov. Corbett’s 2011/12 budget **reduces** overall state General Funds for the **Department of Health (DOH)** by over \$12 million or 5.4 percent (when excluding Tobacco Settlement Fund programs transferred to the General Fund). The proposed budget does increase funding for **Quality Assurance** by nearly \$1.7 million, including funds for increased inspections. This appropriation funds the inspections of health facilities, including abortion clinics. Gov. Corbett’s proposal notes that these clinics will be inspected annually, with a random sample being inspected more than once a year.

Additionally, Gov. Corbett’s proposal creates a new **Tactical Emergency Medical Support (TEMS)** Program within DOH. The proposal states that TEMS providers will be sworn-in police officers attached to tactical teams, with at least an Emergency Medical Technician Paramedic certification, and trained in law enforcement and emergency medicine. These officers will have the ability to assess medical threats, render immediate medical care in hazardous environments, and provide logistical support that will further the health and safety of law enforcement personnel and reduce the incidences of injury, illness, disability and death associated with training and tactical operations. The Executive Budget is unclear regarding how this program will be funded.

As in many agencies, Gov. Corbett **significantly reduces, eliminates and consolidates most appropriations in DOH**. The following table details appropriation consolidation in the department.

Agency/Existing Program	Proposed Program
<b><u>Department of Health</u></b>	
Expanded Cervical Cancer Screening Cancer Control Program Breast and Cervical Cancer Screening	
	Cancer Screening Services
Services for Children with Special Needs Adult Cystic Fibrosis Cooley's Anemia Hemophilia Sickle Cell	
	Special Medical Programs



Act 50 of 2010 created the **Department of Drug & Alcohol Programs** and transferred existing funding for these programs from the Department of Health to the new department. **Gov. Corbett's proposal would maintain the program within the Department of Health.**

### Housing Finance Agency

The Governor's proposed budget eliminates funding for the **Homeowners Emergency Mortgage Assistance program (HEMAP)**. This program provides loans to homeowners who, through no fault of their own, fall behind on their mortgage payments. In addition to appropriations from the General Fund, the program is funded by loan repayments. In recent years, loan repayments were insufficient to sustain the program. In all likelihood, unless major adjustments are made to the program, the elimination of this appropriation will result in the termination of the program.

Outside of the Homeowners Emergency Mortgage Assistance Program, the **Pennsylvania Housing Finance Agency** is an independent agency that receives no appropriations from the General Fund for its operations and programs.

### Infrastructure Investment Authority (PENNVEST)

The budget proposal **reduces overall funding** for the provision of low-interest loans and grants to municipalities for the construction of drinking water, wastewater, storm water, and brownfields projects by \$339.47 million (34.7 percent). This decrease largely reflects the elimination of \$126 million from the American Recovery and Reinvestment Act (ARRA) of 2009 for sewage and drinking water projects, as well as \$40 million in federal award reductions for other similar projects.

### Insurance

Gov. Corbett's 2011/12 budget **reduces** overall state General Funds for the **Insurance Department** by over \$781,000 or 0.6 percent. Funding for the **Children's Health Insurance Program** remains level-funded with 2010/11.

The proposal does not include funding for the General Fund repayment of a loan from the **Underground Storage Tank Indemnification Fund (USTIF)**. As part of the one-time fixes in the 2002/03 General Fund Budget, **(USTIF)** 'loaned' \$100 million to the General Fund. Per statute, the loan must be repaid, with interest, after a ten-year period. Under the USTIF Loan Repayment appropriation, loan repayment began in 2004/05. **Due to the need to reduce General Fund spending in recent years, this appropriation has been underfunded or not funded at all. Repayment to date has barely covered the interest owed.**

### Judiciary

The Governor's 2011/12 budget proposes flat funding for all appropriations within the Judiciary for a total General Fund cost of \$276.9 million. The Judiciary's budget request is \$328.3 million or \$51.4 million more than in Gov. Corbett's proposal. The Judiciary request is based on the courts bringing in \$24.1 million in revenue from surcharges under Act 49 of 2009 in 2011/12. The Act 49 surcharges expire on January 7, 2012.

As in other areas, Gov. Corbett’s proposal includes the consolidation of appropriations within the Judiciary.

Agency/Existing Program	Proposed Program
<b>Judiciary</b>	-
Civil Procedural Rules Committee	
Appellate/Orphans Rules Committee	
Rules of Evidence Committee	Rules Committees
Minor Court Rules Committee	
Criminal Procedural Rules Committee	
Domestic Relations Committee	
Juvenile Court Rules Committee	
Domestic Violence Services	
Gun Court Reimbursement	County Court Reimbursement
Court Consolidation	
Law Clerks	

**Labor and Industry**

The bulk of funding for the **Department of Labor and Industry** is comprised of federal, special, and other funds. State General Funds are used to support General Government Operations (GGO). These functions include the Pennsylvania Labor Relations Board, the Office for the Deaf and Hard of Hearing, and Labor Law Compliance. Gov. Corbett reduces the GGO appropriation by 1.2 percent. A separate appropriation for Occupational and Industrial Safety was reduced by 4.5 percent. This appropriation provides funding for **enforcement of many of the commonwealth’s safety laws**, including elevator inspections, the Flammable and Combustible Liquids Act and a host of consumer safety laws.

In addition, the Governor’s budget **eliminates several programs** under the Department’s purview, including the **Pennsylvania Conservation Corps** which funds conservation projects on public lands and facilities involving economically disadvantaged youth. Gov. Corbett also eliminates the **Training Activities** line item (funding incumbent worker training grants in conjunction with the Industry Partnership program) and **New Choices/New Options** (funding individualized career, education and personal services for single parents, displaced homemakers and single pregnant women).

Gov. Corbett’s proposal also includes **reductions** in the following programs:

- The **Industry Partnership** program by 1.9 percent, which funds worker training for groups of employers within a single industry
- **Assistive Technology** by 24 percent, which supports the Statewide Assistive Technology Lending Library, providing Pennsylvanians with disabilities an opportunity to try expensive assistive technology devices and equipment before making a purchasing decision.
- **Supported Employment** by 1.9 percent, which helps severely disabled individuals who need extensive support to stay in long-term employment after placement and training has occurred.
- **Centers for Independent Living (CILs)** by 1.9 percent, which allows the nine state-funded CIL's to provide community-based supports for citizens with disabilities.

The Governor's Executive Budget does not propose any solution for **Unemployment Compensation Trust Fund** solvency issues. Because of the depth of the recession, the Commonwealth exhausted the balance of the fund and must borrow from the Federal Unemployment Account to pay for unemployment benefits. The amount of the loan from the Federal Government exceeds \$3 billion, and has begun to accrue interest. While automatic solvency measures in statute have taken effect to help repay the loan, the department has estimated that the fund will continue to be insolvent for the foreseeable future, absent any changes. It is important to note that this issue is separate from the General Fund.

### Public Welfare

**Governor Corbett's 2011/12 Executive Budget requests \$11.2 billion in state General Funds for the Department of Public Welfare (DPW).** This represents an increase of \$2.35 billion from FY 2010/11, which includes a \$250 million state supplemental request. The supplemental request is required largely to adjust for less than anticipated federal Medicaid matching funds that Pennsylvania will receive for the period January 2011 through June 2011 as the result of the scaled-down ARRA FMAP extension passed by Congress last August.

**The \$2.35 billion increase in state appropriations reflects the impact of four factors which must be taken into consideration to make an appropriate comparison between FY 2011/12 and FY 2010/11: ARRA FMAP; "clawback" savings; tobacco funds; and prior year federal funds.** For the most part, these are budgetary factors which represent a shift to the General Fund of existing DPW expenditures and do not reflect new or increased spending in the agency. **In fact, a much leaner budget emerges after accounting for these factors, with DPW state spending declining nearly \$5 million.**

- **Expiration of ARRA FMAP (\$1.745 billion).** Historically, the federal government has paid approximately 55 percent of Pennsylvania's Medicaid expenditures in accordance with the federal Medicaid matching rate (or FMAP) which is based on a formula in federal law. During the 33-month federal stimulus period, October 2008 through June 2011, the federal share has averaged approximately 65 percent due to provisions in ARRA that temporarily increased the FMAP. For 2010/11, the additional federal Medicaid reimbursements that Pennsylvania received under the ARRA FMAPs reduced the state spending requirement for Medical Assistance and other Medicaid-related programs (including community-based waiver programs for disabled

individuals) by \$1.745 billion. Pennsylvania's share of program costs will increase when the ARRA FMAP expires after June 30, 2011 and the federal Medicaid reimbursement rate returns to approximately 55 percent for the 2011/12 budget.

- **“Clawback” Payment Savings (\$250 million).** The “clawback” payment is the monthly payment Pennsylvania must make to the federal government for certain Pennsylvanians (persons dually eligible for Medicare and Medicaid) enrolled in the Medicare Part D drug program. The amount of the monthly payment is based on a formula in federal law, and each month the federal government sends DPW an invoice for the amount owed by the Commonwealth. Pennsylvania's payments were significantly reduced in 2010/11 as the result of the Obama Administration's decision last February to grant additional relief to states by applying the ARRA FMAPs to the monthly payment calculation. These one-time savings disappear when the ARRA FMAP expires and the “clawback” payment calculation will once again be based on the regular FMAP.
- **Tobacco Programs transferred to General Fund (\$247.2 million).** Beginning in 2011/12, the Corbett Administration proposes to transfer all tobacco revenues and tobacco-funded programs to the General Fund. Consequently, DPW's 2011/12 General Fund budget includes \$247 million in program expenses that were funded in previous budgets through the Tobacco Settlement Fund. This includes funding for the Medical Assistance for Workers with Disabilities (MAWD) program (\$63 million), the Uncompensated Care hospital payment program (\$31.5 million) and Medical Assistance Long-Term Care (\$153 million). Without this proposed shift in funding, state appropriations would be \$247 million lower in 2011/12.
- **Prior Year Federal Funds (\$115 million).** These are one-time federal funds that Pennsylvania receives for state expenditures made in prior years and later determined to be eligible for federal reimbursement. The 2010/11 budget used prior year federal funds to pay for Medical Assistance managed care (\$100 million) and Mental Health Services (\$15 million). Without these federal funds, an additional \$115 million of state General Funds would have been needed in 2010/11 for these two programs.

**To mitigate the need for additional state General Funds, Gov. Corbett's budget proposal reduces state spending by \$519 million in 2011/12 through a combination of cost containment initiatives and the reduction in line items, including the elimination of 11 DPW line items.** The cost containment initiatives impact Medical Assistance, disability programs, child welfare, and employment/ training programs for low-income individuals. The eliminated appropriations cut funding for hospitals, medical schools, and human services.

### *Medical Assistance*

The largest component of DPW's budget is the **Medical Assistance (MA) program**, which provides health care and long term care services to more than 2.1 million Pennsylvanians. Managed care is funded through the Capitation appropriation, and the fee-for-service program is funded through the

Outpatient and Inpatient appropriations. Nursing facility and home-and community-based services (for elderly MA recipients) are funded through the Long Term Care appropriation.

**The 2011/12 Executive Budget requests \$6.24 billion in state General Funds for the five major Medical Assistance (MA) appropriations: Outpatient, Inpatient, Capitation, Long Term Care, and Payment to the Federal Government for the Medicare Drug Program.** This represents a \$2.13 billion increase over 2010/11, most of which can be attributed to the expiration of the ARRA FMAP after June 30, 2011. The table below shows the 2011/12 General Funds requested for each of these MA line item appropriations and compares the respective state fund increases with the amount of federal Medicaid reimbursements earned under the ARRA FMAP in 2010/11.

<b>DPW Medical Assistance Appropriations</b> <i>(Dollars in Millions)</i>			
<b>Line Item Appropriation</b>	<b>State General Funds</b>		<b>ARRA FMAP</b>
	<b>2011/12 Budget</b>	<b>Change from 2010/11</b>	<b>2010/11</b>
Outpatient	\$694.8	\$233.7	\$204.9
Inpatient	\$363.7	\$113.9	\$106.1
Capitation	\$3,443.9	\$965.4	\$795.5
<u>Long Term Care*</u>	<u>\$1,260.4</u>	<u>\$546.5</u>	<u>\$363.0</u>
<b>SUBTOTAL</b>	<b>\$5,762.6</b>	<b>\$1,859.5</b>	<b>\$1,469.4</b>
Medicare Drug Payment	\$481.1	\$271.1	
<b>MA TOTAL</b>	<b>\$6,243.7</b>	<b>\$2,130.6</b>	<b>\$1,469.4</b>

\*The 2011/12 appropriation is impacted by the Tobacco Settlement initiative.

**The \$2.1 billion state General Fund increase for MA reflects the combined impact of three elements:** the **“budgetary”** factors described above which largely represent a funding shift for existing expenditures (\$1.97 billion); the **cost drivers** that increase MA program expenditures (\$388 million); and the **proposed cost containment measures** that reduce the need for additional state funds (\$245 million). Each of these is addressed below.

**“Budgetary” Factors.** The following account for \$1.97 billion (or nearly 93 percent) of the state funds increase for MA:

- \$1.469 billion replaces the additional federal Medicaid reimbursements earned in 2010/11 under the ARRA FMAPs;
- \$250 million is due to the loss of one-time “clawback” savings realized in 2010/11;
- \$152 million reflects the proposed swap of General Funds to replace Tobacco Settlement Funds previously used to help pay for MA Long Term Care; and
- \$100 million replaces prior year federal funds used in 2010/11 for Capitation.

**MA Cost Drivers.** Annual expenditures in the MA program are driven by the growing number of recipients, increasing service utilization, and rising health care costs. Together, these cost drivers account for an estimated \$388 million of new state spending in 2011/12.

- \$213 million is for increased costs associated with a projected increase in MA recipients and utilization of services. The Executive Budget anticipates MA enrollment will increase 4.5 percent, to 2.27 million average monthly recipients in 2011/12. No cuts in eligibility are proposed.
- \$175 million is associated with rising health care costs in the MA program. This includes the **monthly capitation rates paid to managed care organizations**, which are budgeted to increase 3.5 percent for physical health and 2 percent for behavioral health – federal rules require DPW to pay actuarially sound managed care rates. It also includes the increase in Medicare Part A and Part B premiums that the federal government requires DPW to pay for qualified low-income elderly and disabled Pennsylvanians.

**MA Cost Containment.** Although Gov. Corbett does not propose to change MA eligibility, his budget includes **several cost containment measures that impact benefits for recipients and payments to providers**. The nearby table lists the various measures that are anticipated to save the state \$245 million in MA costs.

- **Pharmacy benefits** for Medicaid adults would be limited to 6 prescriptions per month (the same as the current limitation for General Assistance adults), and **dental services** for all adults would be limited to one visit per year, with no coverage for high end dentures and periodontal services. Prior authorization would be expanded for select drugs that have significant potential for health and safety risks, misuse, and abuse.
- Managed care would use **evidence-based behavioral health services** for children and youth, as it relates to residential treatment services.
- Unspecified reforms would be made to the **home and community-based waiver services** provided to the elderly, including improved service coordination, expanded consumer-directed care, and revised reimbursement rates and reporting requirements for service providers.
- The **supplemental payments** that hospitals are slated to receive under the new statewide hospital assessment program would be reduced. This proposal reduces the existing supplemental payments - such as Inpatient Disproportionate Share, Medical Education, Community Access Funds, and Outpatient Disproportionate Share – as well as the new payments created under the statewide assessment program.
- **Pay-for-Performance (P4P) payments to managed care organizations** would be reduced as follows: physical health P4P would be reduced by \$18.9 million and skilled nursing P4P would be eliminated (for state savings of \$1.9 million). While no changes are proposed for behavioral health P4P, there will be no mid-year rate adjustment for behavioral health managed care.

- **Nursing home rates** would be cut 2 percent through the implementation of a revised budget adjustment factor for 2011/12. This requires an amendment to the Public Welfare Code to extend the budget adjustment factor which sunsets after June 30, 2011.
- **Behavioral health reinvestment funds** kept by counties would be capped at 4 percent.
- The **nursing facility audit program** would be expanded to recover excess payments made to nursing homes.
- **Fee-for-service audits, claims review, and recovery efforts** would be expanded.

<b>Proposed MA Cost Containment</b> <i>(dollars in millions)</i>	
	<b>State Savings</b>
<b><u>MA Benefits/Services</u></b>	
Reduce optional pharmacy and dental benefits; increase prior authorization for certain prescription drugs	\$55.9
Utilize evidence-based behavioral health services (related to residential treatment facilities) for children and youth	\$10.0
Change community-based waiver services for seniors	\$18.2
<b><u>MA Provider Payments:</u></b>	
Reduces the amount of hospital supplemental payments	\$86.7
Reduce managed care Pay-for Performance payments (reduces physical health P4P and eliminates skilled nursing P4P)	\$20.9
No mid-year rate adjustment for behavioral health managed care	\$11.5
Reduce nursing homes rates 2%	\$22.9
<b><u>Other MA Initiatives</u></b>	
Cap county use of behavioral health reinvestment funds	\$11.0
Expand nursing facility recovery audit program	\$5.4
Expand provider audits, claims review and recovery efforts in fee-for-service system	\$3.3
<b>Total MA Cost Containment</b>	<b>\$245.7</b>

In addition to these MA measures, Gov. Corbett's budget proposal recommends **elimination of the following hospital payments** which are funded through separate line item appropriations:

- **Trauma Center** payments made to Pennsylvania's accredited trauma centers, improving access to trauma care for the most critically injured patients;
- **Critical Access Hospital** payments made to hospitals that meet Medicare's definition for "critical access" hospitals, assuring access to care in underserved areas of Pennsylvania;
- **Hospital-Based Burn Center** payments made to certified burn centers; and

- **Obstetric and Neonatal Service** payments made to qualifying hospitals that provide obstetric and neonatal services to MA recipients. Rural hospitals receive 15 percent of funds and urban/non-rural hospitals receive 85 percent of funds.

The Executive Budget also **proposes to terminate medical school funding** by eliminating the following appropriations:

- **Academic Medical Centers**, which funds the medical schools at Temple, Penn State (Hershey Medical Center), and University of Pittsburgh.
- **Physician Practice Plans**, which funds the medical schools at Drexel, Thomas Jefferson, and University of Pennsylvania.

### *Disability Programs*

Gov. Corbett's proposed 2011/12 budget requests a total of \$2.3 billion in state General Funds for programs that serve individuals with intellectual disabilities or ID (previously referred to as mental retardation), persons with mental health disorders, and individuals with severe physical disabilities. This is a \$284 million increase in state funds; however, most of this is related to the expiration of the ARRA FMAP, which reduced the need for state funds by \$260 million in 2010/11. The table below shows the 2011/12 General Funds requested for each of the disability line item appropriations and compares the respective state fund increases with the amount of federal Medicaid reimbursements earned under the ARRA FMAP in 2010/11.

<b>DPW Intellectual Disability Appropriations</b> <i>(Dollars in Millions)</i>			
Program Area / Line Item Appropriation	State General Funds		ARRA FMAP 2010/11
	2011/12 Budget	Change from 2010/11	
<b>Intellectual Disabilities (ID)</b>	<b>\$1,278.7</b>	<b>\$245.1</b>	<b>\$217.5</b>
ID - State Centers	107.4	25.7	27.5
ID - Intermediate Care Facilities	145.3	34.8	33.1
ID - Community Base Program	166.5	10.6	1.9
ID - Community Waiver Program	846.0	173.6	153.2
Autism Intervention and Services	13.5	0.4	1.8
<b>Mental Health</b>	<b>\$769.9</b>	<b>\$21.3</b>	<b>\$0.0</b>
Mental Health Services	717.7	22.3	-
Behavioral Health Services	52.2	-1.0	-
<b>Physical Disabilities</b>	<b>\$239.1</b>	<b>\$17.3</b>	<b>\$42.8</b>
Services to Persons with Disabilities	135.7	20.0	28.6
Attendant Care	103.5	-2.7	14.2
<b>TOTAL - DISABILITY PROGRAMS</b>	<b>\$2,287.7</b>	<b>\$283.6</b>	<b>\$260.2</b>

In response to litigation regarding the inappropriate and unnecessary institutionalization of Pennsylvanians, the proposed budget includes additional state funding to move individuals from the



**state centers and state hospitals and to place them in the community.** Specifically, the 2011/12 proposed budget requests a total of \$8.6 million in state funds for additional community services as follows:

- \$4.95 million in the **Mental Health Services** appropriation to provide community services for 90 individuals currently residing in state hospitals – in response to the Frederick L. v. Department of Public Welfare lawsuit settlement agreement.
- \$2.45 million in the **ID Community Waiver Program** appropriation to provide community services to 35 persons with dual diagnosis of mental illness and intellectual disabilities who are currently residing in state hospitals – in response to the Jimmie v. Department of Public Welfare lawsuit.
- \$1.2 million in the **ID Community Waiver Program** appropriation to provide community services for 50 individual with intellectual disabilities currently residing in state centers – in response to the Benjamin v. Department of Public Welfare lawsuit settlement agreement.

The proposed budget has **no funding to reduce the county waiting list** for individuals with intellectual disabilities who need community services. Nor does the budget include funding to provide additional community services to individuals with physical disabilities.

The **cost containment initiatives** in DPW's budget include changes to community services for disabled individuals, which are expected to save the state \$68.8 million in 2011/12 as follows:

- \$38 million in **ID Community Waiver Programs** by revising service definitions (\$11 million) and limiting state reimbursement to group home providers for federally ineligible room and board costs (\$27 million).
- \$17.2 million in **Services to Persons with Disabilities** through a variety of unspecified reforms that include improved service coordination, revised reimbursement rates and reporting requirements, and expanded consumer-directed care.
- \$13.6 million in **Attendant Care** through a variety of unspecified reforms that include improved service coordination, revised reimbursement rates and reporting requirements, expanded consumer-directed care, and increased federal funds.

Additionally, Gov. Corbett's budget proposes to **privatize the operation of the forensic psychiatric units at Torrance and Norristown state hospitals**, generating estimated net savings of \$3 million in the **Mental Health Services** appropriation. The forensic units provide psychiatric treatment and/or psychiatric evaluation to persons involved with the county-based judicial/corrections systems. Approximately 400 state jobs would be eliminated under the privatization proposal, but DPW anticipates that most of the positions would be picked up under the private contract.

### *Income Maintenance*

Under the program area of Income Maintenance, DPW operates a variety of programs designed to provide temporary support to families in transition from government dependency to economic self-sufficiency. Support may include education, job training and placement assistance, transportation, other support services and cash assistance.

Gov. Corbett's 2011/12 proposed budget **reduces state General Fund expenditures in the program area of Income Maintenance by nearly \$54.7 million or seven percent**. This decrease largely represents anticipated savings in state General Funds resulting from an **initiative to "rightsize" employment and training contracts**. This initiative spans the **County Assistance Offices, New Directions, and Cash Grants** appropriations. Under the initiative, part of the state fund reduction will be replaced with federal Temporary Assistance for Needy Families (TANF) block grant funds. Additional details on this initiative are forthcoming.

The proposed budget assumes increased caseloads in the areas of cash assistance and state supplemental grants. The **Cash Grants** appropriation funds monthly cash payments and supportive services allowances (transportation, clothing, etc.) to recipients of TANF, General Assistance (GA) and State Blind Pension (SBP). The **Supplemental Grants** appropriation provides state funding to supplement federal benefits paid to aged, blind, and disabled recipients under the Supplemental Security Income program. The Social Security Administration (SSA) established the federal Supplemental Security Income (SSI) Program in 1974. States were given the option of providing supplementary cash payments to augment federal benefits.

### *Other Human Services*

Under the program area of **Human Services and Support**, the Department of Public Welfare (DPW) operates a variety of programs designed to provide supportive services to people while they overcome an adverse behavior or circumstance that has affected their lives.

Under the **Youth Development Institutions and Forestry Camps** appropriation, DPW oversees residential programs for committed delinquents who are ages 12 to 18. The court may sentence youth to either the Youth Development Center and Youth Forestry Camp (YDC/YFC) system or a private facility. The YDC/YFC system is presently comprised of seven facilities located throughout the state. The Commonwealth operates six facilities and one facility is operated by a private agency under contract with DPW. Gov. Corbett's 2011/12 budget proposal assumes **\$6 million in state savings from the consolidation of units at the New Castle YDC facility**.

As required in the County Code and the Public Welfare Code, **the County Child Welfare appropriation under the Department of Public Welfare (DPW) provides state and federal funds to support county-administered social services programs for children and youth in each of the Commonwealth's 67 counties**. Child welfare programs are funded through a combination of state, federal and county dollars. The majority of funding is from state Act 148 (General Fund), federal Title IV-E, and county funds. **Based**

**on the type of services delivered, varying levels of state reimbursement (ranging from 50-100%) are provided to counties.** This is often referred to as a county match on state Act 148 dollars.

Each year, the proposed funding level for child welfare services is built from the **Needs-Based Plan and Budget (NBB) process**. Article VII of the Public Welfare Code establishes child welfare services as an entitlement service that is the joint responsibility of DPW and county government. DPW administers the funds and regulates the services, while the counties provide the services to families and children consistent with their approved NBB and the state regulations that govern the county children and youth agencies.

In recent years, the department also has extracted components from the NBB process, known as **special grants** which aim to improve research-based practices in child welfare. By removing these initiatives from the approved NBB, the grants do not have to meet the same county match requirements (often at a lesser rate). Examples include reunification services, adoption practices, independent living services for those aging out of the system, information technology, housing assistance, and reintegration services.

The proposed budget provides a **net reduction of \$21.6 million under County Child Welfare**. This includes a \$32.5 million reduction in funding for county NBBs, offset partially by an increase of \$17 million for special grants. In addition, state savings are assumed from additional federal reimbursement for legal guardianship services.

The department also provides funding for the following human services programs: **Domestic Violence, Rape Crisis, Breast Cancer Screening, Legal Services** and **Homeless Assistance**. Gov. Corbett's budget proposal reduces these appropriations from enacted 2010/11 amounts, reflecting budgetary freezes announced in August 2010.

In addition, counties are able to supplement human services program funding through support received under the **Human Services Development Fund (HSDF)**. County governments may use funds under this appropriation for a wide range of social services included within the seven county-operated programs of adult services, aging, children and youth, drug and alcohol, homeless assistance, and community programs for mental health/intellectual disabilities. DPW allocates funds to counties based on the formula in Act 116 of 1998. **Gov. Corbett proposes eliminating HSDF, greatly impacting county budgets.**

### *Child Development*

Under the program area of **Child Development**, the Department of Public Welfare (DPW) operates a variety of programs designed to provide quality, affordable child care services and other support intended to minimize developmental delay.

Within the **Child Care Services** and **Child Care Assistance** appropriations, Pennsylvania provides funding assistance to eligible families who need **child care services** in order to hold sustainable employment. In addition, funding is provided to ensure quality early childhood programs in the Commonwealth. **Gov.**

**Corbett's proposed 2011/12 budget holds state funding level for Child Care Services and slightly increases Child Care Assistance accounting for necessary increases.**

Under the **Early Intervention** appropriation, services include physical therapy, speech therapy, health services, family counseling, and family training. The department allocates funds to counties, which administer local early intervention programs, based on the prior year and special needs identified by counties for the current year. This program is an entitlement program, meaning that all children meeting the criteria must be served. **The proposed budget accounts for necessary caseload within Early Intervention and the replacement of federal ARRA FMAP funding.**

The **Community Based Family Centers** appropriation funds 65 family centers in 29 counties. The centers are designed to offer a variety of community services to assist parents in improving their child rearing skills. Services provided may include: parental support and education programs; home visitation/home-based early childhood education; health care information; child development activities; accessibility to toy and resource libraries; and dissemination of information about related services in the community. Over the past several years, funding under this appropriation also has focused on a Promoting Responsible Fatherhood Initiative, Child Abuse Prevention Initiatives, and a Time-Limited Family Reunification Service Initiative. This program also includes the **Parent-Child Home Program**. **Gov. Corbett's budget proposal eliminates funding for the Community Based Family Centers program.**

### **Military and Veteran's Affairs**

The Governor's Proposal increases state funding for the **Department of Military and Veteran's Affairs** by \$19.7 million (17.8 percent) over current year funding. Of this increase, \$12.1 million would be for **Veterans Homes** and \$7.2 million reflects an increased transfer to **Educational Assistance Program Fund**.

The agency's complement was **decreased by 27 full-time equivalent positions (FTE)**. Of this reduction, 20 positions will be eliminated from providing services at Veterans Homes and 8 positions will be eliminated from General Government Operations.

### **State**

The proposed budget includes new appropriations under the **Department of State** for the publishing of **state and federal reapportionment maps**, for a total of \$1.7 million. This is a decennial expense as part of the reapportioning process. Gov. Corbett's proposal also recommends increased funding in the amount of \$330,000 for the Lobbying Disclosure line item, which supports enforcement of the Lobbying Disclosure Act. The proposed budget decreases funding for other General Fund line items under the Department of State, including General Government Operations, Statewide Uniform Registry of Electors and Voter Registration.

### **State Police**

The Governor's 2011/12 budget proposal for the **Pennsylvania State Police (PSP)** provides for a 5.7 percent increase in General Funds and a 5.4 percent increase in the Motor License Fund. Overall, PSP

can expect a 5.5 percent increase in **funding providing for two cadet classes of 237 cadets**, increasing the state trooper complement to 4,429 by the close of 2011/12.

**This budget also proposes that the Motor License Fund retain 100 percent of vehicle fine revenue generated in municipalities where the State Police serves as the primary police force.** Currently, a portion of these revenues are returned to the municipality.

### Transportation

Most expenditures relating to transportation are funded through special funds. Please see the sections on the Motor License Fund and the Public Transportation Trust Fund for more detail.

Consistent with the 2010/11 budget, the Governor's proposal does not fund the state General Fund appropriation for **Rail Freight Assistance** (\$8 million in 2009/10). This is an economic development program that helps link businesses to rail freight lines. For 2010/11, the General Assembly decided to fund rail freight assistance projects through the capital budget. This explains the increase in bond-financed rail freight assistance from \$57 million to \$77 million for 2010/11. Gov. Corbett recommends continuing this bond-financed program. These changes are displayed in Attachment F.

### Treasury

The budget proposal includes **increased Information Technology Modernization funding to replace the Treasury's aging computer systems.** The department has been operating with Nixon-era computer mainframes that are at great risk for critical breakdown and failure. In 2011/12, \$3.3 million was appropriated to help begin to replace the computer systems. The Executive Budget proposes \$10 million in modernization funds, an increase of \$6.6 million.

The proposed budget also includes \$5 million for **interest on Tax Anticipation Notes (TAN).** Tax Anticipation Notes are short term borrowing instruments used by the Commonwealth to meet its short term cash flow needs. The State Constitution requires TANs to be repaid in the fiscal year for which they were used by current year revenues. The budget estimates an increase of \$2.8 million will be needed in the 2011/12 fiscal year for these expenses.

### Motor License Fund

**The Governor's proposed budget anticipates a total 2.8 percent decline in Motor License Fund revenue for fiscal year 2011/12.** The decrease is attributable to the Fund experiencing a windfall this year from the restructuring of investment pools by the State Treasurer. For the same reason, the Governor is revising up the Official Revenue Estimate of the Fund by \$186.39 million for 2010/11. Otherwise, without a windfall from investment restructuring, the unrestricted portion of the Fund would have received an increase of perhaps 3.8 percent for 2011/12.

Despite the decline in available revenues, Gov. Corbett's budget proposal would increase expenditures **from the Motor License Fund by 5.6 percent.** This is possible by carrying forward the fund balance from

the current year. Attachment D, “Motor License Fund Overview,” provides a table which summarizes the revenue and expenditures by agency of the Fund. The “Fund Management Adjustments” listed in the table are the net effect of lapsing (cutting) funds and carrying balances forward from one year to the next.

For the combined Motor License Fund (i.e., both unrestricted and restricted revenue), the Governor’s budget proposal **increases by 5.9 percent funding for both the Pennsylvania State Police and the Department of Transportation**. The State Treasurer would receive a 6.9 percent increase, but most of it will be used for paying debt service for the \$200 million per year bridge capital project initiated by Gov. Rendell and proposed to be continued by Gov. Corbett for 2011/12.

### Highways & Bridges

**The Governor’s proposed budget offers no solution to the funding shortfall for highways and bridges.** Last May in its final report, the Transportation Advisory Committee identified a \$2.6 billion funding shortfall for state highways and bridges. In addition, the Committee identified a \$432 million funding shortfall for local highways and bridges. The funding situation has been exacerbated by the Federal Highway Administration’s denial of Pennsylvania’s plan to toll Interstate 80 per Act 44 of 2007.

Attachment E, “PennDOT Motor License Fund Expenditures Overview,” provides a breakdown of how PennDOT will spend Motor License Funds by major category. The Governor is recommending a 6.2 percent increase in construction and maintenance of state highways and bridges, a 2.4 percent increase in assistance to local governments for highways and bridges, a 0.1 percent increase for the administration of highway safety, vehicle registration and licensing of drivers, and a 1.1 percent increase for General Government Operations.

### Lottery Fund: Programs for Senior Citizens

**Lottery Funds available to spend in 2011/12 are projected to total \$1.7 billion, slightly lower than 2010/11.** Funds available to spend include the following: the prior year ending balance carried forward to 2011/12 (\$133.2 million); net Lottery collections after commissions and field prizes (\$1.4 billion); transfers from the Gaming Fund to pay for Property Tax and Rent Rebate program expansion costs under Special Session Act 1 of 2006 (\$164.1 million); and investment earnings (\$2.5 million).

The Executive Budget proposes total spending of \$1.6 billion in 2010/11, approximately \$21 million more than 2010/11. This would leave an ending balance in the Lottery Fund of \$103.6 million.

Senior programs funded by the Lottery Fund include property tax and rent rebates, transportation subsidies, prescription drug assistance, long-term care, and home and community services. As detailed in the nearby table, the 2011/12 proposed budget spends more than \$1.1 billion of Lottery Funds for senior programs. This represents a net increase of \$26.5 million.

The Executive Budget request also reflects the impact of the Corbett Administration’s tobacco initiative and the recommendation to use Lottery Funds to support programs previously funded through the

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Tobacco Settlement Fund. The tobacco initiative impacts two existing Lottery Fund appropriations – **Pharmaceutical Assistance Fund** and **Medical Assistance-Long Term Care** – and a new Lottery Fund appropriation established for 2011/12, **Home and Community-Based Services**.

Lottery Fund: Appropriations for Programs that Support Seniors (Dollars in Millions)		
Appropriations	FY 2011/12 Budget Request	Change from FY 2010/11
<b>Department of Aging:</b>		
PENNCARE	\$248.764	\$4.204
Pre-Admission Assistance	\$10.735	\$0
Family Caregiver	\$12.103	\$0
Alzheimer's Outreach	\$0.250	\$0
Pharmaceutical Assistance Fund	\$250.000	\$50.000
Home and Community Based Services *	\$32.183	\$32.183
<b>Department of Public Welfare:</b>		
Medical Assistance - Long Term Care	\$121.255	-\$57.183
<b>Department of Revenue:</b>		
Property Tax and Rent Assistance	\$283.900	-\$1.600
<b>Department of Transportation:</b>		
Shared Rides	\$79.000	-\$2.500
Transfer to Public Transportation Trust Fund	\$89.610	\$1.411
<b>TOTAL</b>	<b>\$1,127.800</b>	<b>\$26.515</b>

\* New appropriation for services previously funded through the Tobacco Settlement Fund.

The Executive Budget recommends \$250 million in Lottery Funds for the **Pharmaceutical Assistance Program (PACE)**, an increase of \$50 million. Half of the increase is requested to fund the rising program costs associated with providing prescription drug assistance to 315,000 seniors, an increase of 1,700 enrollees from 2010/11. The remaining \$25 million reflects the Corbett Administration's proposal to use Lottery Funds to replace the tobacco funds that otherwise would be transferred to PACE. Provisions in Act 77 of 2001 (Tobacco Settlement Act) allocate eight percent of annual tobacco payments for PACE.

As part of the tobacco initiative, the Executive Budget recommends \$32.8 million for a new Lottery Fund appropriation, **Home and Community-Based Services**, to fund existing services that were supported previously with tobacco funds in accordance with Act 77.

To offset the Lottery Fund expenditures associated with the increased appropriation for PACE (\$25 million) and the new appropriation for Home and Community Based Services (\$32.8) to replace tobacco funds, the Executive Budget recommends a concomitant reduction of \$57.2 million to the Lottery Fund appropriation for **Medical Assistance Long Term Care** in the Department of Public Welfare. Consequently, the Governor proposes \$121.3 million of Lottery Funds for Medical Assistance Long Term Care in 2011/12, compared to \$178.4 million that was appropriated in 2010/11.

The **PENNCARE** appropriation, which provides grants to Area Agencies on Aging (AAAs) for community programs, is slated to receive \$248.8 million, a \$4.2 million increase. The proposed funding increase supports the attendant care program, which is projected to serve an additional 240 disabled elderly in 2011/12. All other PENNCARE services – such as Options in-home services, home-delivered meals, senior center programs, and transportation services – are funded at last year’s level.

The proposed budget appropriates \$238.9 million for the **Property Tax and Rent Rebate (PTRR)** program in the Department of Revenue. This is a decrease of \$1.3 million based on a projected decline in participation. An estimated 609,000 households are expected to receive property tax or rent assistance in 2011/12, compared to an estimated 611,000 households in 2010/11.

Finally, the Executive Budget requests a total of \$168.6 million in the Department of Transportation for senior transit programs for 2011/12. This includes \$79 million for the **Shared Ride** program, a decrease of \$2.5 million based on transit system projections, and \$89.6 million transferred to the Public Transportation Trust Fund for grants to transit agencies to operate the **Free Transit** program, an increase of \$1.4 million.

## **Tobacco Settlement Fund**

**A major component of Governor Corbett’s budget is the recommendation to transfer the Tobacco Settlement Fund to the General Fund. This includes moving tobacco payments received by the Commonwealth together with the tobacco-funded programs.**

The Tobacco Settlement Act (Act 77 of 2001) established the Tobacco Settlement Fund for the deposit of payments received by the Commonwealth and established specific health-related programs to be financed with the money. Additionally, Act 77 set forth allocation percentages for appropriating annual tobacco payments to these programs as well as the Health Endowment Account that was established within the Tobacco Settlement Fund. In any given budget year, the amount of tobacco funds allocated to programs is based on payments received in the previous year – that is payments received in FY 2009/10 are allocated to programs in FY 2010/11. Every year since 2005/06, the General Assembly has adjusted the Act 77 funding allocations, via amendments to the Fiscal Code, so that Tobacco Settlement Funds could be diverted to other programs in the state budget – Medical Assistance Long term Care has been the primary beneficiary of the diverted funds. Most recently, Act 46 of 2010 amended the Fiscal Code to include a \$250 million transfer to the General Fund for fiscal year 2010/11 as well as other provisions which depleted the Health Endowment Account. Act 46 of 2010 specified that these transfers be made for health-related purposes.



**Gov. Corbett proposes to make the following changes in the treatment of tobacco funds, beginning in FY 2011/12:**

- All payments received by tobacco companies will be deposited into the General Fund. The proposal is silent regarding what happens to the provisions of Act 77.
- Instead of tobacco funds being allocated to programs based on the allocation percentages established in Act 77, the funds will be appropriated by the General Assembly.
- Tobacco funds available to spend in the budget no longer will be based on actual tobacco payments received in the prior year, but will be based on tobacco payments anticipated during the budget year. The impact of this timing change will be to double up the tobacco funds available to spend in 2011/12. Specifically, the 2011/12 budget proposes to spend the payments actually received in 2010/11 as well as the payments anticipated in 2011/12.
- With respect to the two Lottery Fund programs within the Department of Aging which, in accordance with Act 77, are supported with tobacco funds ( i.e., Pharmaceutical Assistance and Home and Community-Based Services for seniors), additional Lottery Funds will be used to replace the tobacco funds. To assure this change does not create fiscal pressure for the Lottery Fund, the amount of replacement revenue required for these two programs will, in turn, be deducted from the amount appropriated for Medical Assistance Long Term Care. This is explained in greater detail in the Lottery Fund section of this report.

**The table on the following page identifies how Gov. Corbett proposes to spend the \$698 million in tobacco payments that the Commonwealth expects to receive during 2010/11 (\$360 million) and 2011/12 (\$338 million).**

- \$324 million will be appropriated through the General Fund to health-related programs in three agencies: Health; Public Welfare; and Community and Economic Development. For 2011/12, funding for these programs would be distributed based on the modified percentages in Act 46 of 2010 which governed the distribution of tobacco payments in the 2010/11 budget.
- \$154 million will be transferred to the General Fund. Most of the transfer (\$140 million) will be made from the 2010/11 tobacco payments received by the Commonwealth. The balance (\$14 million) will come from the share of 2011/12 tobacco payments redirected from Tobacco Use Prevention and Cessation, again, using the provisions in Act 46 of 2010 which redirected 37.5 percent of that program's 2010/11 allocation to the General Fund.
- \$220 million will be transferred to a new Liberty Loan Fund in the Department of Community and Economic Development. The transfer would be made from the 2010/11 tobacco payments received by the Commonwealth.

2011/12 Executive Budget Spending Proposal for Tobacco Payments Received by Pennsylvania (Dollar Amounts in Millions)		
	Payments received in 2010/11 and deposited in Tobacco Settlement Fund	Payments received in 2011/12 and deposited in General Fund
<b>APPROPRIATIONS</b>		
<b>Department of Health:</b>		
Health Research		\$59,861
Tobacco Use Prevention and Cessation		\$14,177
<b>Department of Public Welfare:</b>		
Medical Assistance for Workers with Disabilities		\$63,042
Hospital Uncompensated Care program		\$31,505
Medical Assistance - Long Term Care		\$152,656
<b>Department of Community &amp; Economic Development:</b>		
Life Sciences Greenhouse		\$3,000
<b>TRANSFERS</b>		
General Fund *	\$140,000	\$14,177
Liberty Loan Fund	\$220,000	
<b>TOTAL</b>	<b>\$360,000</b>	<b>\$338,418</b>

\* Funds not earmarked for any specific purpose.

## Property Tax Relief Fund

The Governor's budget assumes **\$781.3 million in total property tax relief disbursements, which represents an increase of \$8.8 million, or 1.1 percent more than the total disbursement made available in fiscal year 2010/11.** The Budget Secretary's certification of total property tax relief will not be made until April 2011; however given only a slight change in expectations, it is most likely that property tax relief, wage tax relief (Philadelphia), and property tax/rent rebate will remain at similar levels as the previous year.

Gov. Corbett proposes **significant cuts to education and funding to local entities. It is very likely that this will result in property tax increases at the local level.** The Governor is attempting to limit the ability of school districts to set budgets by proposing a "property tax cap." This would require local school budgets to be subject to a voter referendum for any increases above inflation. Setting a property tax cap would require legislative action to enact.

## Public Transportation Trust Fund & Public Transportation Assistance Fund

### Mass and Community Transit

**The Governor's proposal has no recommendations for closing the \$484 million funding shortfall for transit identified by the Transportation Advisory Committee last May.**

Attachment F, "Governor's Budget Proposal for Transit and Rail," provides an overview for transit funding. **Mass transit systems as a whole will see a 0.5 percent increase in funding.** Because the formula factors change every year and the capital portion is discretionary, the impact on specific transit systems will vary.

The 0.5 percent increase is the net effect of two factors: (1) anticipated increase in sales tax revenue and (2) loss of funds carried over from Turnpike payments for the asset improvement program, i.e. capital projects. Last year, the Federal government denied Pennsylvania's application to toll Interstate 80 pursuant to Act 44 of 2007. As a consequence, transit lost \$160 million in Turnpike payments designated for Asset Improvement.

In Attachment F, you will note a decrease in funding for **Programs of Statewide Significance**. This is due to the ability of PennDOT to carry funds over from one fiscal year to the next. For example, the programs for Community Equipment Grants and Technical Assistance expired with Act 44 of 2007 and are replaced by Programs of Statewide Significance, but Act 44 allowed PennDOT to carry over unspent funds until June 30, 2012. Programs of Statewide Significance include the following: transit for persons with disabilities, intercity rail and bus, community transportation—capital projects, community transportation—service stabilization, welfare-to-work and reverse commute, and technical assistance & demonstration projects.

## ATTACHMENT A – State General Fund Budget Comparison

**Table 1. State General Fund Budget Comparison, By Agency (\$ Thousands)**

Agency	FY 2009-10 Actual	FY 2010-11 Available *	FY 2011-12 Budget***	FY 2011-12 less FY 2010-11	
				\$ Change	% Change
Governor's Office	\$6,831	\$6,400	\$6,228	(172)	-2.7%
Executive Offices	\$195,068	\$168,997	\$158,975	(10,022)	-5.9%
Lieutenant Governor	\$1,075	\$995	\$1,359	364	36.6%
Attorney General	\$86,522	\$83,007	\$82,199	(808)	-1.0%
Auditor General	\$48,303	\$46,245	\$45,075	(1,170)	-2.5%
Treasury	\$976,221	\$1,023,234	\$1,113,193	89,959	8.8%
Agriculture	\$66,257	\$63,037	\$58,711	(4,326)	-6.9%
Agriculture - Nonpreferred Appropriations	\$30,000	\$30,002	\$29,000	(1,002)	-3.3%
Community & Economic Development	\$258,068	\$327,462	\$220,553	(106,909)	-32.6%
Conservation & Natural Resources	\$90,622	\$82,480	\$58,342	(24,138)	-29.3%
Corrections **	\$1,592,937	\$1,694,319	\$1,880,810	186,491	11.0%
Education - Preferred Appropriations **	\$9,454,628	\$9,244,566	\$9,463,118	218,552	2.4%
Education - Nonpreferred Appropriations **	\$659,233	\$657,159	\$334,638	(322,521)	-49.1%
Environmental Protection	\$154,259	\$145,486	\$138,224	(7,262)	-5.0%
General Services **	\$117,649	\$119,782	\$120,453	671	0.6%
Health (includes Nonpreferreds)	\$235,401	\$233,705	\$221,187	(12,518)	-5.4%
Insurance	\$122,425	\$121,880	\$121,099	(781)	-0.6%
Labor & Industry (includes Nonpreferreds)	\$89,340	\$86,200	\$72,269	(13,931)	-16.2%
Military and Veterans Affairs	\$110,173	\$110,334	\$129,992	19,658	17.8%
PA Higher Education Assistance Agency	\$457,922	\$441,199	\$411,557	(29,642)	-6.7%
Public Welfare **	\$8,576,965	\$8,858,582	\$10,964,900	2,106,318	23.8%
Revenue	\$186,382	\$189,731	\$197,661	7,930	4.2%
State	\$9,825	\$8,496	\$10,242	1,746	20.6%
State System Higher Education **	\$465,197	\$465,197	\$232,599	(232,598)	-50.0%
Thaddeus Stevens College of Technology **	\$8,550	\$8,550	\$9,788	1,238	14.5%
Transportation	\$10,499	\$2,187	\$2,226	39	1.8%
State Police	\$180,150	\$175,568	\$185,578	10,010	5.7%
Civil Service Commission	\$1	\$1	\$1	0	0.0%
Emergency Management & Homeland Security	\$19,865	\$12,844	\$9,690	(3,154)	-24.6%
Fish & Boat Commission	\$17	\$17	\$0	(17)	-100.0%
Historical & Museum Commission (includes Nonpreferreds)	\$21,162	\$18,467	\$17,881	(586)	-3.2%
State Environmental Hearing Board	\$1,691	\$1,578	\$1,744	166	10.5%
PA Probation & Parole Board	\$114,902	\$120,578	\$128,115	7,537	6.3%
Securities Commission	\$1,386	\$1,145	\$1,131	(14)	-1.2%
State Tax Equalization Board	\$1,147	\$1,009	\$1,068	59	5.8%
State Employees' Retirement System	\$4	\$4	\$4	0	0.0%

**Table 1. State General Fund Budget Comparison, By Agency (\$ Thousands)**

*(Continued)*

Agency	FY 2009-10 Actual	FY 2010-11 Available *	FY 2011-12 Budget***	FY 2011-12 less FY 2010-11	
				\$ Change	Agency
PA Housing Finance Agency	\$11,000	\$10,476	\$0	(10,476)	-100.0%
Legislature	\$299,026	\$300,285	\$296,012	(4,273)	-1.4%
Health Care Cost Containment Council	\$2,844	\$2,710	\$2,710	0	0.0%
Ethics Commission	\$1,980	\$1,786	\$1,786	0	0.0%
<u>Courts</u>	<u>\$276,860</u>	<u>\$276,860</u>	<u>\$276,860</u>	<u>0</u>	<u>0.0%</u>
<b>TOTAL GENERAL FUND</b>	<b>\$24,942,387</b>	<b>\$25,142,560</b>	<b>\$27,006,978</b>	1,864,418	7.4%
Preferred Appropriations - State Subtotal	\$24,235,880	\$24,442,971	\$26,627,921	2,184,950	8.9%
Nonpreferred Appropriations - State Subtotal	\$690,160	\$687,161	363,638	(323,523)	-47.1%
Executive Authorizations - Subtotal	\$16,347	\$12,428	\$15,419	2,991	24.1%

\* FY 2010-11 reflects enacted budget and includes proposed supplemental appropriations.

\*\* These agency budgets utilize federal offset funds which reduce the need to spend state General Funds in FY 2009/10 and FY 2010/11. Consequently, a comparison between years is misleading -- especially for Public Welfare -- as this table only reports General Funds. Please see Attachment B, Table 2 which shows total State General Funds and ARRA funds budgeted for these agencies.

\*\*\* This column does not include \$324.241 million in tobacco-funded programs which the executive budget proposes to transfer to the General Fund for 2011/12.

## ATTACHMENT B – State General Fund and Federal ARRA Funds

**Table 2. State General Fund and Federal ARRA Funds**

(Dollars in Thousands)

Agency/ Appropriations	FY 2009-10	FY 2010-11	FY2011-12	FY 2011-12 less FY 2010-11	
	Actual	Available *	Budget	\$ Change	% Change
<b>Corrections</b>	\$ 1,765,848	\$ 1,867,230	\$ 1,880,810	13,580	0.7%
State General Fund	1,592,937	1,694,319	1,880,810		
ARRA Fiscal Stabilization	172,911	172,911	-		
<b>Education - Preferred</b>	\$ 10,130,899	\$10,308,653	\$ 9,463,118	(845,535)	-8.2%
State General Fund	9,454,628	9,244,566	9,463,118		
ARRA Fiscal Stabilization - Basic Education	654,747	654,747			
New Education Jobs Funds		387,816			
ARRA Fiscal Stabilization - Higher Education	21,524	21,524			
<b>Education - Nonpreferred Appropriations</b>	\$ 690,451	\$ 688,377	\$ 334,638	(353,739)	-51.4%
State General Fund	659,233	657,159	334,638		
ARRA Fiscal Stabilization - Higher Education	31,218	31,218	-		
<b>General Services</b>	\$ 118,149	\$ 120,282	\$ 120,453	171	0.1%
State General Fund	117,649	119,782	120,453		
ARRA Fiscal Stabilization	500	500			
<b>Public Welfare **</b>	\$ 10,353,647	\$10,604,374	\$ 10,964,900	360,526	** 3.4%
State General Fund	8,576,965	8,858,582	10,964,900		
ARRA FMAP (Enhanced Medicaid Match)	1,776,682	1,745,792	-		
<b>State System Higher Education</b>	\$ 503,355	\$ 503,355	\$ 232,599	(270,756)	-53.8%
State General Fund	465,197	465,197	232,599		
ARRA Fiscal Stabilization - Higher Education	38,158	38,158	-		
<b>Thaddeus Stevens College of Technology</b>	\$ 10,876	\$ 10,876	\$ 9,788	(1,088)	-10.0%
State General Fund	\$8,550	\$8,550	\$9,788		
ARRA Fiscal Stabilization - Higher Education	2,326	2,326	-		

\* FY 2010-11 reflects enacted budget plus supplemental appropriations.

\*\* FY 2011-12 does not include \$247.2 million in tobacco-funded programs which the Executive Budget proposes to transfer to the General Fund. These programs were funded in prior budgets through the Tobacco Settlement Fund and so their inclusion in the 2011/12 General Fund budget exaggerates spending growth in Public Welfare.

**Please note** that there are two other adjustments -- "clawback" payment savings and prior year federal funds -- which are not reflected above, but need to be taken into consideration when making comparisons between the Public Welfare budgets for 2011-12 and 2010-11. These adjustments total \$365 million, **actually creating a decrease in DPW funding by \$4.7 million.**

> "Clawback" savings related to the ARRA FMAP -- Pennsylvania's payments to the Medicare Part D program (i.e., "clawback" payments) were significantly reduced in FY 2010/11 as the result of the Obama Administration's decision in February 2010 to grant additional relief to states by applying the ARRA FMAP to these payments. This federal decision saved the state \$250 million in FY 2010/11 which will not be available in FY 2011/12 when the ARRA FMAP expires and the "clawback" payment calculation is once again based on the regular FMAP.

> Prior Year Federal Funds -- These are one-time federal funds that Pennsylvania receives for state expenditures made in prior years and later determined to be eligible for federal reimbursement. The 2010/11 budget used \$115 million of prior year federal funds to pay for Medical Assistance managed care (\$100 million) and Mental Health Services (\$15 million). Without these federal funds, an additional \$115 million of state General Funds would have been needed in 2010/11 for these two programs.

## ATTACHMENT C – Ranked Agency Subtotal Comparison to Prior Year

**Table 3. Comparison to Prior Year, Ranked by Dollar Amount**

**General Fund - State plus Federal Offsets (\$ Thousands)**

Agency	FY 2009-10	FY 2010-11	FY 2011-12	FY 2011-12 less FY 2010-11	
	Actual	Available *	Budget***	\$ Change	% Change
Education - Preferred Appropriations **	\$10,130,899	\$10,308,653	\$9,463,118	(845,535)	-8.2%
Education - Nonpreferred Appropriations **	\$690,451	\$688,377	\$334,638	(353,739)	-51.4%
State System Higher Education **	\$503,355	\$503,355	\$232,599	(270,756)	-53.8%
Community & Economic Development	\$258,068	\$327,462	\$220,553	(106,909)	-32.6%
PA Higher Education Assistance Agency	\$457,922	\$441,199	\$411,557	(29,642)	-6.7%
Conservation & Natural Resources	\$90,622	\$82,480	\$58,342	(24,138)	-29.3%
Labor & Industry (includes Nonpreferreds)	\$89,340	\$86,200	\$72,269	(13,931)	-16.2%
Health (includes Nonpreferreds)	\$235,401	\$233,705	\$221,187	(12,518)	-5.4%
PA Housing Finance Agency	\$11,000	\$10,476	\$0	(10,476)	-100.0%
Executive Offices	\$195,068	\$168,997	\$158,975	(10,022)	-5.9%
Environmental Protection	\$154,259	\$145,486	\$138,224	(7,262)	-5.0%
Agriculture	\$66,257	\$63,037	\$58,711	(4,326)	-6.9%
Legislature	\$299,026	\$300,285	\$296,012	(4,273)	-1.4%
Emergency Management & Homeland Security	\$19,865	\$12,844	\$9,690	(3,154)	-24.6%
Auditor General	\$48,303	\$46,245	\$45,075	(1,170)	-2.5%
Thaddeus Stevens College of Technology **	\$10,876	\$10,876	\$9,788	(1,088)	-10.0%
Agriculture - Nonpreferred Appropriations	\$30,000	\$30,002	\$29,000	(1,002)	-3.3%
Attorney General	\$86,522	\$83,007	\$82,199	(808)	-1.0%
Insurance	\$122,425	\$121,880	\$121,099	(781)	-0.6%
Historical & Museum Commission (includes Nonpreferreds)	\$21,162	\$18,467	\$17,881	(586)	-3.2%
Governor's Office	\$6,831	\$6,400	\$6,228	(172)	-2.7%
Fish & Boat Commission	\$17	\$17	\$0	(17)	-100.0%
Securities Commission	\$1,386	\$1,145	\$1,131	(14)	-1.2%
Civil Service Commission	\$1	\$1	\$1	0	0.0%
State Employees' Retirement System	\$4	\$4	\$4	0	0.0%
Health Care Cost Containment Council	\$2,844	\$2,710	\$2,710	0	0.0%
Ethics Commission	\$1,980	\$1,786	\$1,786	0	0.0%
Courts	\$276,860	\$276,860	\$276,860	0	0.0%
Transportation	\$10,499	\$2,187	\$2,226	39	1.8%
State Tax Equalization Board	\$1,147	\$1,009	\$1,068	59	5.8%
State Environmental Hearing Board	\$1,691	\$1,578	\$1,744	166	10.5%
General Services **	\$118,149	\$120,282	\$120,453	171	0.1%
Lieutenant Governor	\$1,075	\$995	\$1,359	364	36.6%
State	\$9,825	\$8,496	\$10,242	1,746	20.6%
PA Probation & Parole Board	\$114,902	\$120,578	\$128,115	7,537	6.3%

**Table 3. Comparison to Prior Year, Ranked by Dollar Amount**  
**General Fund - State plus Federal Offsets (\$ Thousands)**  
*(Continued)*

Agency	FY 2009-10	FY 2010-11	FY 2011-12	FY 2011-12 less FY 2010-11	
	Actual	Available *	Budget***	\$ Change	% Change
Revenue	\$186,382	\$189,731	\$197,661	7,930	4.2%
State Police	\$180,150	\$175,568	\$185,578	10,010	5.7%
Corrections **	\$1,765,848	\$1,867,230	\$1,880,810	13,580	0.7%
Military and Veterans Affairs	\$110,173	\$110,334	\$129,992	19,658	17.8%
Treasury	\$976,221	\$1,023,234	\$1,113,193	89,959	8.8%
<u>Public Welfare **</u>	<u>\$10,353,647</u>	<u>\$10,604,374</u>	<u>\$10,964,900</u>	<u>360,526</u>	<u>3.4%</u>
<b>TOTAL GENERAL FUND</b>	<b>\$27,640,453</b>	<b>\$28,197,552</b>	<b>\$27,006,978</b>	<b>(1,190,574)</b>	<b>-4.2%</b>

\* FY 2010-11 reflects enacted budget and includes proposed supplemental appropriations.

\*\* These agency budgets utilize federal offset funds which reduce the need to spend state General Funds in FY 2009-10 and FY 2010-11.

\*\*\* FY 2011-12 does not include \$324.241 million in tobacco-funded programs which the executive budget proposes to transfer to the General Fund.

\*\*\*\* Public Welfare spending **decreases \$4.7 million** compared to FY 2010-11 after further adjustments are taken. (See footnote on Attachment B, Table 2.)



## ATTACHMENT D – Motor License Fund Overview

Motor License Fund Overview					
	2009-10	2010-11	2011-12	Change from 10/11	
	Thousands of Dollars			%	
<b>REVENUES</b>					
<b>Unrestricted MLF Revenues:</b>					
Liquid Fuels Taxes	1,183,922	1,226,330	1,232,470	6,140	0.5%
Motor Licenses and Fees	857,666	875,670	894,310	18,640	2.1%
Other MLF Revenue	599,478	408,030	284,070	-123,960	-30.4%
<b>Total Unrestricted Revenue</b>	<b>2,641,066</b>	<b>2,510,030</b>	<b>2,410,850</b>	<b>-99,180</b>	<b>-4.0%</b>
Fund Management Adjustments <sup>1</sup>	-13,393	-84,562	169,542	254,104	-300.5%
Unrestricted Amount to be Expended	2,627,673	2,425,468	2,580,392	154,924	6.4%
<b>Restricted MLF Revenue</b>					
Highway Bridge Improvement	98,255	102,250	102,480	230	0.2%
State Highway Transfer	23,570	23,980	24,100	120	0.5%
Oil Company Franchise Tax per 1991 Act 26	432,131	439,720	441,920	2,200	0.5%
Supplemental Maintenance per 1997 Act 3	302,492	307,800	309,340	1,540	0.5%
<b>Total Restricted Revenue</b>	<b>856,448</b>	<b>873,750</b>	<b>877,840</b>	<b>4,090</b>	<b>0.5%</b>
Fund Management Adjustments <sup>1,2</sup>	21,970	-5,846	21,150	26,996	-461.8%
Restricted Amount to be Expended	878,418	867,904	898,990	31,086	3.6%
<b>Total MLF Revenue</b>	<b>3,497,514</b>	<b>3,383,780</b>	<b>3,288,690</b>	<b>(95,090)</b>	<b>-2.8%</b>
Fund Management Adjustments <sup>1</sup>	8,577	-90,408	190,692	281,100	-310.9%
Total to be Expended	3,506,091	3,293,372	3,479,382	186,010	5.6%
<b>EXPENDITURES</b>					
<b>Unrestricted MLF Expenditures by Agency</b>					
Executive Offices	22,830	18,777	17,433	-1,344	-7.2%
Treasury	36,826	37,145	37,517	372	1.0%
Dept of Agriculture	4,689	3,975	4,328	353	8.9%
Dept Conservation & Natural Resources	1,000	1,000	1,000	0	0.0%
Dept of Education	875	1,103	1,103	0	0.0%
Dept of Environmental Resources	4,000	4,000	4,000	0	0.0%
Dept of General Services	12,754	12,779	12,785	6	0.0%
Dept of Revenue	24,197	26,218	26,218	0	0.0%
State Police	512,080	533,455	565,060	31,605	5.9%
PennDOT	2,008,422	1,787,016	1,910,948	123,932	6.9%
<b>Total Unrestricted MLF</b>	<b>2,627,673</b>	<b>2,425,468</b>	<b>2,580,392</b>	<b>154,924</b>	<b>6.4%</b>
<b>Restricted MLF Expenditures by Agency</b>					
Treasury	24,635	42,574	47,685	5,111	12.0%
Dept of Conservation & Natural Resources	7,000	7,000	3,000	-4,000	-57.1%
State Police	0	2,000	2,000	0	0.0%
PennDOT	846,783	816,330	846,305	29,975	3.7%
<b>Total Restricted MLF</b>	<b>878,418</b>	<b>867,904</b>	<b>898,990</b>	<b>31,086</b>	<b>3.6%</b>
<b>Unrestricted and Restricted Totals for Select Agencies</b>					
Treasury	61,461	79,719	85,202	5,483	6.9%
Dept of Conservation & Natural Resources	8,000	8,000	4,000	-4,000	-50.0%
State Police	512,080	535,455	567,060	31,605	5.9%
PennDOT	2,855,205	2,603,346	2,757,253	153,907	5.9%
<b>Grand Total Expenditures</b>	<b>3,506,091</b>	<b>3,293,372</b>	<b>3,479,382</b>	<b>186,010</b>	<b>5.6%</b>

**Footnotes:**

<sup>1</sup>Fund Management Adjustments consist of carrying balances forward and lapsing of funds.

<sup>2</sup>The Fund Management Adjustment for restricted revenue for FY 2010/11 and FY 2011/12 includes \$2 million revenue in a newly created restricted revenue account from the sale of used patrol vehicles of the State Police.

## ATTACHMENT E – PennDOT Motor License Fund Expenditures

<b>PennDOT Motor License Fund Expenditures Overview</b>					
	2009-10	2010-11	2011-12	Change from 10/11	
	Thousands of Dollars			%	
<b>Construction and Maintenance of State Highways and Bridges</b>					
Unrestricted Motor License Fund	1,618,055	1,376,136	1,490,955	114,819	8.3%
Restricted Motor License Fund	695,295	666,232	693,519	27,287	4.1%
Augmentations	84,646	88,275	90,336	2,061	2.3%
Bond Proceeds-Bridge Projects	248,330	200,000	200,000	0	0.0%
<b>Subtotal-State Funds Only</b>	<b>2,646,326</b>	<b>2,330,643</b>	<b>2,474,810</b>	<b>144,167</b>	<b>6.2%</b>
<i>Federal Funds</i>	<i>1,601,841</i>	<i>1,931,000</i>	<i>1,586,000</i>	<i>-345,000</i>	<i>-17.9%</i>
<b>Total State Highways and Bridges</b>	<b>4,248,167</b>	<b>4,261,643</b>	<b>4,060,810</b>	<b>-200,833</b>	<b>-4.7%</b>
<b>Assistance Provided to Local Governments for Highways and Bridges</b>					
Unrestricted Motor License Fund	228,382	232,100	239,928	7,828	3.4%
Restricted Motor License Fund	151,488	150,098	152,786	2,688	1.8%
Augmentations	232,654	224,514	228,850	4,336	
<b>Subtotal-State Funds Only</b>	<b>612,524</b>	<b>606,712</b>	<b>621,564</b>	<b>14,852</b>	<b>2.4%</b>
<i>Federal Funds</i>	<i>2,012</i>	<i>1,300</i>	<i>1,300</i>	<i>0</i>	<i>0.0%</i>
<b>Total Local Highways &amp; Bridges Assistance</b>	<b>614,536</b>	<b>608,012</b>	<b>622,864</b>	<b>14,852</b>	<b>2.4%</b>
<b>Administration for Highway Safety, Vehicle Registration, and Licensing of Drivers</b>					
General Fund	1,421	1,291	1,317	26	2.0%
Unrestricted Motor License Fund	112,747	124,420	125,109	689	0.6%
Augmentations	44,527	49,682	49,182	-500	-1.0%
<b>Subtotal-State Funds Only</b>	<b>158,695</b>	<b>175,393</b>	<b>175,608</b>	<b>215</b>	<b>0.1%</b>
<i>Federal Funds</i>	<i>6,278</i>	<i>7,517</i>	<i>7,217</i>	<i>-300</i>	<i>-4.0%</i>
<b>Total Safety Administration and Licensing</b>	<b>164,973</b>	<b>182,910</b>	<b>182,825</b>	<b>-85</b>	<b>0.0%</b>
<b>General Government Operations and Transportation Support Services</b>					
Unrestricted Motor License Fund	49,238	54,360	54,956	596	1.1%
Augmentations	1,120	1,490	1,490	0	0.0%
<b>Subtotal-State Funds Only</b>	<b>50,358</b>	<b>55,850</b>	<b>56,446</b>	<b>596</b>	<b>1.1%</b>
<i>Federal Funds</i>	<i>0</i>	<i>125</i>	<i>0</i>	<i>-125</i>	<i>-100.0%</i>
<b>Total Transportation Support Services</b>	<b>50,358</b>	<b>55,975</b>	<b>56,446</b>	<b>471</b>	<b>0.8%</b>
<b>PennDOT Motor License Fund Expenditures</b>					
General Fund	1,421	1,291	1,317	26	2.0%
Unrestricted Motor License Fund	2,008,422	1,787,016	1,910,948	123,932	6.9%
Restricted Motor License Fund	846,783	816,330	846,305	29,975	3.7%
Augmentations	362,947	363,961	369,858	5,897	
Bond Proceeds	248,330	200,000	200,000	0	0.0%
<b>Subtotal-State Funds Only</b>	<b>3,467,903</b>	<b>3,168,598</b>	<b>3,328,428</b>	<b>159,830</b>	<b>5.0%</b>
<i>Federal Funds</i>	<i>1,610,131</i>	<i>1,939,942</i>	<i>1,594,517</i>	<i>-345,425</i>	<i>-17.8%</i>
<b>Total PennDOT MLF Expenditures</b>	<b>5,078,034</b>	<b>5,108,540</b>	<b>4,922,945</b>	<b>-185,595</b>	<b>-3.6%</b>

## ATTACHMENT F – Transit and Rail

GOVERNOR'S BUDGET PROPOSAL FOR TRANSIT AND RAIL						
	FY 2009/10	FY 2010/11	FY 2011/12	Change from 10/11		
	Thousands of Dollars				%	
<b>Mass Transit Agency Subsidies</b>						
Mass Transit Operating -PTTF	702,813	663,174	687,930	24,756	3.7%	
Mass Transit Grants - PTAF	170,447	165,464	154,738	(10,726)	-6.5%	
Asset Improvement - PTF	131,151	20,302	9,272	(11,030)	-54.3%	
Capital Improvement - PTF	24,813	16,710	22,046	5,336	31.9%	
Capital Projects-Bond Funded <sup>1</sup>	125,000	125,000	125,000	-	0.0%	
Shared Ride Reimbursements-Lottery Fund	80,186	81,500	79,000	(2,500)	-3.1%	
<b>Total Subsidies for Mass Transit Systems</b>	<b>1,234,410</b>	<b>1,072,150</b>	<b>1,077,986</b>	<b>5,836</b>	<b>0.5%</b>	
<b>Community Transit Program Subsidies</b>						
Community Equipment Grants-PTAF <sup>2</sup>	324	344	-	(344)		
Technical Assistance - PTAF <sup>2</sup>	1,083	1,139	-	(1,139)		
Programs of Statewide Significance - PTF	56,702	66,744	61,180	(5,564)	-8.3%	
<b>Total Subsidies for Community Transit Programs</b>	<b>58,109</b>	<b>68,227</b>	<b>61,180</b>	<b>(7,047)</b>	<b>-10.3%</b>	
<b>Total State Subsidies for All Transit Programs</b>	<b>1,292,519</b>	<b>1,140,377</b>	<b>1,139,166</b>	<b>(1,211)</b>	<b>-0.1%</b>	
<i>Federal Transit/Rail Grants Passed Through PennDOT</i>	<i>157,220</i>	<i>318,915</i>	<i>300,002</i>	<i>(18,913)</i>	<i>-5.9%</i>	
<b>State and Federal Pass-Through Subsidies for Transit</b>	<b>1,449,739</b>	<b>1,459,292</b>	<b>1,439,168</b>	<b>(20,124)</b>	<b>-1.4%</b>	
<b>Rail Freight Subsidies</b>						
Rail Freight Assistance-General Fund	8,000	-	-			
Rail Freight Assistance-Bond Funded <sup>1</sup>	57,000	77,000	77,000	-	0.0%	
<b>Total Rail Freight Assistance</b>	<b>65,000</b>	<b>77,000</b>	<b>77,000</b>	<b>-</b>	<b>0.0%</b>	
<b>PennDOT Administration Cost for Transit and Rail</b>						
Transit Administration and Oversight-PTTF	4,513	4,431	4,488	57	1.3%	
Rail Freight and Intermodal Coordination-General Fund	1,078	896	909	13	1.5%	
Augmentations	660					
<i>Federal Administrative Grants</i>	<i>22,001</i>	<i>22,701</i>	<i>22,901</i>	<i>200</i>	<i>0.9%</i>	
<b>Total Administrative Costs</b>	<b>28,252</b>	<b>28,028</b>	<b>28,298</b>	<b>270</b>	<b>1.0%</b>	
<b>TOTALS BY FUND</b>						
General Fund	9,078	896	909	13	1.5%	
Public Transportation Trust Fund	919,992	771,361	784,916	13,555	1.8%	
Public Transportation Assistance Fund	171,854	166,947	154,738	(12,209)	-7.3%	
Lottery Fund	80,186	81,500	79,000	(2,500)	-3.1%	
Bond Financing (paid by General Fund debt service)	182,000	202,000	202,000	-	0.0%	
Augmentations	660					
<b>State Funds Subtotal</b>	<b>1,363,770</b>	<b>1,222,704</b>	<b>1,221,563</b>	<b>(1,141)</b>	<b>-0.1%</b>	
<i>Federal Funds Passed Through PennDOT</i>	<i>179,221</i>	<i>341,616</i>	<i>322,903</i>	<i>(18,713)</i>	<i>-5.5%</i>	
<b>State and Federal Funds</b>	<b>1,542,991</b>	<b>1,564,320</b>	<b>1,544,466</b>	<b>(19,854)</b>	<b>-1.3%</b>	

**Footnotes:**

<sup>1</sup>Source: PennDOT. The Governor's Budget Presentation does break out the Capital Budget Transportation Assistance Projects into its components.

<sup>2</sup>These are funds carried over from previous fiscal years. Act 44 of 2007 eliminated these line items because these programs are now funded by Programs of Statewide Significance. Act 44 allows unspent funds from these line items to be carried over until June 30, 2012. Source: PennDOT.

**Acronyms Used:**

PTTF = Public Transportation Trust Fund (PTTF), created by Act 44 of 2007.

PTAF = Public Transportation Assistance Fund, created by Act 26 of 1991.