

Summary of Line-Item Vetoes in Act 10A (House Bill 1460, PN2626)

In early December, after nearly six months of gridlock, the Senate passed a 2015/16 budget plan with bi-partisan support. The budget compromise made significant progress in restoring funding for Pre-K through 12 education, higher education and human service providers.

Just before Christmas, the budget was set for a final vote in the House of Representatives; however, hours before the vote, the Speaker of the House abruptly recessed the House. The House Republicans abandoned the budget agreement. Later that day, the Senate sent the governor a budget (House Bill 1460, PN2626) and left town.

On Dec. 29, 2015, Gov. Wolf signed House Bill 1460, but line-item vetoed key aspects of it in an attempt to force the General Assembly to come back to Harrisburg to finish the job. By signing the bill, funding can begin to flow to school districts, counties and human service providers; however, the long-term budget challenges remain. Also, note that additional legislation is still pending that routinely accompanies the General Appropriations bill including: non-preferred legislation that contains appropriations for state-related universities; a fiscal code bill that provides further instructions about how funds are to be distributed; the capital budget bill, constitutionally required legislation affecting debt authorization; and a tax code bill that affects funding levels.

Gov. Wolf line-item vetoed about 100 appropriations in House Bill 1460, including half of the basic education, state correctional institutions and medical assistance capitation appropriations. The governor also vetoed most of the appropriations traditionally added back by the legislature.

House Bill 1460, as sent to the governor, would have created a deficit in the General Fund of more than \$500 million, according to the administration's financial statement. That assumes additional increases are also enacted as contained in the separate non-preferred legislation for Penn State University, University of Pittsburgh and Temple University worth 5 percent and for Lincoln University worth 7 percent – as was agreed to as part of the budget framework. However, those separate pieces of legislation (Senate Bills 912 – 916) are still pending in the House.

Overview

After the line-item vetoes, the General Fund budget (Act 10A) totals \$23.4 billion, which is \$6.9 billion less than the \$30.3 billion budget as it was sent to the governor (House Bill 1460, PN2626), including the non-preferred legislation. According to the administration's General Fund financial statement, \$29.8 billion in funds are available to spend, thus the Republicans' \$30.3 billion budget is out of balance by about \$500 million (assuming the non-preferred legislation).

- Act 10A spends \$5.8 billion less as compared to the 2014/15 budget of \$29.2 billion, with supplemental appropriations.
- Act 10A spends \$7.4 billion less as compared to the \$30.8 billion budget under the framework agreement.

K-12 Education

Basic Education

As of the time Act 10A of 2015 was signed, the state had missed three of its basic education payments to school districts equaling 45 percent of the net allocation.

- Note: Each fiscal year, basic education funds are paid to school districts over six payments beginning in August and continuing every other month, with a final payment in June. The first five payments are 15 percent of the net allocation owed and the final payment in June is 25 percent of the net allocation (or the remaining balance after reconciliations).

House Bill 1460, PN 2626, included \$5.63 billion for basic education funding, which was a \$100 million increase over 2014/15. In Act 10A, Gov. Wolf line-item vetoed the basic education funding appropriation to \$2.53 billion, which represents 45 percent (i.e. the 3 missed payments or six months of funding) of the appropriated amount in House Bill 1460, PN2626.

The legislature did not send an accompanying distribution formula with the budget bill, so the Wolf administration used aspects of the framework agreement and the 'restoration' formula to distribute the Ready to Learn Block Grant and Basic Education funding (albeit slightly altered due to different dollar amounts).

Mobile Science and Math Education Programs

Gov. Wolf vetoed the entire \$2.1 million Mobile Science and Math Education Program appropriation. Gov. Wolf had proposed to eliminate funding in his budget proposal.

Roughly half of the \$1.8 million Mobile Science and Math Education Programs appropriation in 2014/15 was funding for the Science in Motion programs. Institutions of higher education that participate in Science in Motion partner with school districts in order to share science resources such as high-tech equipment, mobile educators and professional development programs. The remaining balance of the appropriation is earmarked for other STEM type funding in the Fiscal Code (House Bill 1327 not yet enacted).

Job Training and Education Programs

House Bill 1460 flat-funded the \$10.5 million Job Training and Education Programs appropriation. Gov. Wolf vetoed the full amount. He proposed to eliminate funding for this program in his March budget proposal.

Higher Education

Gov. Wolf vetoed \$10.7 million from **community colleges**, returning the appropriation to the 2014/15 funding level.

The governor vetoed the entire \$3 million **Regional Community College Services** appropriation. This appropriation funds a branch campus of Butler County Community College, the startup costs of a new Rural Regional College, and a subsidy to provide local community college rates to PA students in South Central/Southwestern PA who attend a nearby community college across the state line in Maryland.

The governor vetoed \$125,000 from the **Community Education Councils**, returning the appropriation to the 2014/15 funding level.

Funding for **state-related universities** is contained in separate non-preferred legislation that is still pending in the House (Senate Bills 912 – 916). As part of the budget framework, Penn State University, University of Pittsburgh and Temple University would receive 5 percent increase and for Lincoln University would receive a 7 percent increase.

The governor vetoed \$20.6 million from the **State System of Higher Education**, returning the appropriation to the 2014/15 funding level.

Gov. Wolf vetoed \$617,000 from the **Thaddeus Stevens College of Technology**, returning the appropriation to the 2014/15 funding level.

Pennsylvania Higher Education Assistance Agency (PHEAA) grants were reduced by \$56.9 million to \$305.2 million; however, that assumes PHEAA's business earnings will pick up an additional \$50 million of the

program costs. This change implements the budget framework amount, which is a 3 percent increase, less \$50 million of state General Funds.

Other PHEAA programs are returned to 2014/15 funding levels, except for the PA Internship Program Grants appropriation, which the governor vetoed entirely.

Pensions

Act 10A provides the state's share of the legally required employer contribution payment to the **Public School Employees' Retirement System (PSERS)**, which is \$1.725 billion.

The annual state employer payment to the **State Employees' Retirement System (SERS)** was made for all non-vetoed appropriations. However, agencies with appropriations that were fully or partially vetoed (those that fund personnel costs) will either not be able to make or will have difficulty making their full employer contributions.

Public Employee Retirement Commission (PERC)

House Bill 1460 would have allocated \$962,000 to PERC for 2015/16; however, the governor fully vetoed this appropriation. Among other duties, PERC is charged with monitoring public retirements in the state and to assure their actuarial viability through review of any proposed legislative changes to those plans. No legislation requiring a PERC fiscal note will be able to proceed until funding is restored to this agency.

Health & Human Services

Medical Assistance

The line-item veto eliminated half of the state appropriation for **Medical Assistance Capitation**. This appropriation funds the monthly premiums paid to managed care organizations that provide physical and behavioral health care services to more than 2.5 million Pennsylvanians enrolled in HealthChoices, the name of Pennsylvania's Medicaid managed care program. Because Medicaid is a federal entitlement program, DHS will continue to make monthly premium payments to the managed care organizations, just as it did during the budget impasse.

The following Medical Assistance appropriations were reduced to the exact amount that was in the framework agreement. DHS will monitor the reductions, making payments to providers in the Medicaid entitlement program. While the framework agreement included earmarks, nothing is final without a Fiscal Code bill to provide guidance on how funds are to be spent.

- **Medical Assistance - Fee for Service** - This appropriation funds outpatient and inpatient health care services provided to Medicaid recipients who are not enrolled in the HealthChoices managed care program. It also funds a number of supplemental payments (such as disproportionate share and medical education payments) made to qualifying hospitals as well as earmarks for specific hospitals.
- **Medical Assistance – Long-Term Care** - This appropriation funds payments to nursing facilities for services provided to Medicaid recipients. It also includes additional funds for earmarks to specific facilities.

The following state appropriations, which fund supplemental hospital payments, were eliminated. The state appropriations are augmented with revenue collected from the new hospital assessment re-authorized in Act 92 of 2015). As part of the December agreement reached between DHS and the hospital industry, revenue collected from the hospital assessment will fund a portion of these payments. At this time, we do not know when DHS will release the share of payments funded by the assessment.

- **Medical Assistance - Obstetric and Neonatal Services** - This appropriation provides supplemental payments to qualifying hospitals serving Medicaid recipients.
- **Medical Assistance - Critical Access Hospitals** - This appropriation provides supplemental payments to qualifying rural hospitals.

Hospital Based Burn Centers - This appropriation provides payments to Pennsylvania's six burn centers. This appropriation was not included in the Governor's Executive Budget, but was subsequently added by the General Assembly. The governor's line-item veto eliminated these payments.

The **Medical Assistance – Academic Medical Centers** appropriation funds payments to various medical schools. The governor's line-item veto reduced the appropriation to the exact amount that was in the framework agreement. Again, while the framework agreement included earmarks, nothing is final absent a Fiscal Code bill to provide guidance on how funds are to be spent.

Health

Gov. Wolf vetoed several appropriations of importance to the legislature within the Department of Health. These appropriations are typically restored in budget negotiations.

- The governor eliminated funding for the following appropriations in Act 10A: Diabetes Programs, Regional Cancer Institutes, Lupus, Regional Poison Control Centers, Trauma Program Coordination, Epilepsy Support Services, Bio-Technology Research, Tourette Syndrome and ALS Support Services.
- The governor reduced funding for the following appropriations in Act 10A: Tuberculosis Screening and Treatment, Services for Children with Special Needs, ACF and Other Chronic Respiratory Illnesses, Cooley's Anemia, Hemophilia and Sickle Cell.

Gov. Wolf also reduced the appropriation for Newborn Screening by \$100,000, which partially removes the increase intended to address additional testing requirements enacted during the previous legislative session.

The governor vetoed a new budget appropriation for Health Research Services (\$4.35 million).

eHealth Partnership

The governor's veto reduced the transfer from the General Fund to the eHealth Partnership Authority by \$350,000, which returns the appropriation to its 2014/15 funding level. The agency was seeking an increase to continue development of programs and roll-out opportunities.

Law Enforcement, Public Safety & Justice

Child Advocacy Centers

The governor's line-item veto eliminated \$1 million from the General Fund for the Child Advocacy Centers (CACs). The CACs are eligible to apply for grants from the Endowment Act (Act 1 of 2013) and a restricted receipt account established under Act 28 of 2014 (from increased birth certificate fees).

The Pennsylvania Commission on Crime and Delinquency (PCCD) expends the endowment funds, the monetary penalty imposed on Pennsylvania State University by the NCAA to aid the victims of child sexual abuse in the commonwealth. The CACs are one of the main recipients of those funds. The endowment funds will provide significantly more money for the CACs compared to previous state appropriations. In fact, PCCD recently announced over \$2 million in awarded grants to the CACs.

Commission on Crime and Delinquency

The governor vetoed \$416,000 from the Pennsylvania Commission on Crime and Delinquency, providing a total of \$4.017 million, which is slightly more than 2014/15. This cut should not have a significant impact on the commission in the near future; however, it may need to curtail spending to avoid furloughs.

Corrections

The governor vetoed about half of the funding for the state correctional institutions or more than \$939.4 million. This appropriation is the single largest appropriation in the Department of Corrections' budget as it provides for salaries and operations. Whether the administration can make payments and continue operations for this critical state function related to public safety is now subject of debate. There are supplemental appropriations bills in the House and Senate to restore the line-item veto.

Military & Veterans Affairs

The governor eliminated the \$100,000 appropriation for Civil Air Patrol.

PEMA

Gov. Wolf vetoed the **Search and Rescue** appropriation (\$250,000). The governor also vetoed funding the **Local Municipal Emergency Relief** appropriation (\$3 million).

Violence Prevention Programs

The governor vetoed \$697,000 from Violence Prevention Programs, providing a total of \$3.88 million, which is less than 2014/15.

Environment

Environmental Protection

Gov. Wolf vetoed funding for **Sewage Facilities Grants**, within the Department of Environmental Protection (DEP). House Bill 1460 included \$900,000 for this appropriation, with 87 percent of these funds earmarked for specific projects within the pending Fiscal Code bill (House Bill 1327 not yet enacted). The framework agreement funded these grants at \$610,000.

Conservation and Natural Resources

Gov. Wolf vetoed funding for **Heritage and Other Parks**. This appropriation supports the PA Heritage Parks Program, which provides grants to communities to help plan, develop, manage and market natural, recreational and historical resources. In his initial budget proposal, Gov. Wolf, like his predecessor, proposed eliminating funding for this appropriation. However, this appropriation is of importance to the legislature, and has generally been restored in budget negotiations.

Other Areas

Agriculture

Gov. Wolf vetoed several appropriations within the Department of Agriculture. Funding for **Agricultural Excellence, Agricultural Research, Agricultural Promotion, Education and Exports, Hardwoods Research and Promotion, Livestock Shows**, and **Open Dairy Shows** were eliminated in Act10A. In his initial budget proposal, Gov. Wolf, like his predecessor, proposed eliminating funding for these appropriations. However, these appropriations are of importance to the legislature, and have generally been restored in budget negotiations.

The budget would have allocated \$50.5 million to the **Agricultural College Land Scrip Fund**, funds that are directed to Penn State University to fulfill its obligations as Pennsylvania's sole land grant institution. Gov. Wolf vetoed this funding in its entirety. Penn State's College of Agricultural Sciences operates the statewide Cooperative Extension. The Extension deploys agriculture educators in counties across the commonwealth to address issues ranging from dairy farming practices, to planting and gardening, to coexisting with the natural gas industry. Although there are no plans for furloughs in light of this funding cut at this time, it is unprecedented. A spokesman for the College explained that without this funding the Extension could not operate.

Funding for the **Animal Health and Diagnostic Commission, the PA Veterinary Lab and Pennsylvania Fairs** has also been vetoed in the budget. These appropriations received, in total, \$14.65 million under the budget plan, House Bill 1460. In recent years these appropriations received funding from the Race Horse Development Fund (RHDF). However, this budget moved the funding of these appropriations to the General Fund through the Department of Agriculture. The multi-party, race horse industry reforms, brokered last fall, were included in the framework budget agreement. The agreement included maintaining these appropriations within the RHDF, not moving them to the General Fund. It remains to be seen if these appropriations will be returned to the RHDF when the budget is finalized. Although these appropriations were vetoed by Gov. Wolf in the General Fund budget, the Fiscal Code bill (House Bill 1327 not yet enacted) would authorize a total distribution of \$25.76 million from the RHDF for 2015/16. This included funding for the above appropriations, as well as for the state Farm Show and a transfer to the state Racing Fund.

Community & Economic Development

The governor reduced the Marketing to Attract Tourists appropriation by \$2.75 million to \$4.26 million, which is the cost to carry amount for 2015/16. This is a significant reduction as compared to the \$8.74 million that was included in the framework budget agreement.

The governor eliminated funding for the following appropriations in Act 10A: Tourism – Accredited Zoos, Infrastructure Technical Assistance, Supercomputer Center Projects, Powdered Metals and Rural Leadership Training.

The Industrial Resource Centers (IRCs) are no longer transferred out of the Partnerships for Regional Economic Performance (PREP) appropriation, as was agreed to in the budget framework. This move would have provided not only an independent appropriation to fund IRCs and higher education partners, but also increased funding for these entities. Additionally, the remaining programs in the PREP appropriation including Local Development Districts (LDDs), Small Business Development Centers (SBDCs) and Industrial Development Assistance would have received effective increases in funding.

Labor & Industry

The governor reduced the **Transfer to Vocational Rehabilitation Fund** appropriation by \$200,000, which effectively removes an earmark.

The governor reduced the two **assistive technology** appropriations to 2014/15 funding levels. These appropriations fund device acquisition low-interest loans and the lending library to allow consumers to try expensive devices before purchasing them.

The governor eliminated funding for **New Choices/New Options**, which is an appropriation of importance to the legislature and is typically restored in budget negotiations.

General Assembly

The governor reduced legislative appropriations to the 2014/15 funding levels, which were already reduced amounts because of Gov. Corbett's previous line-item veto.

- Appropriations for the Senate were reduced by a total of \$31.3 million.
- Appropriations for the House of Representatives were reduced by a total of \$19.7 million.
- Appropriations for Government Support Agencies were reduced by a total of \$13.6 million.