



# **MISSED OPPORTUNITIES**

## **Pennsylvania's 2010-11 budget cuts a wide range of services, while leaving revenue on the table**

412 North 3<sup>rd</sup> Street, Harrisburg, PA 17101 • [www.pennbpc.org](http://www.pennbpc.org) • July 8, 2010

---

### **OVERVIEW**

The General Assembly and the Governor have agreed on a 2010-11 state budget of \$28.043 billion, which includes \$25.3 billion in state dollars and \$2.75 billion in federal ARRA funding.<sup>1</sup> Total spending is increased by 0.7% from the amount available in 2009-10.<sup>2</sup> The budget plan uses fewer state dollars than were spent in 2006-07.

The budget increases funding to meet mandated expenditures for public health care and corrections. It offsets those increases with cuts to numerous other services, including early childhood services, human service programs, environmental protection, agricultural programs, libraries and state parks. Governor Rendell has said budget cuts will require 1,000 state employee layoffs – and more job losses are likely to follow in local governments and the private sector as the ripple effect of these cuts are felt.

Funding increases were largely targeted to meet recession-driven growth in demand for health and safety net services, including increases in funding for Medical Assistance and cash assistance. The corrections budget will also increase to fund a growing prison population. Basic education funding, a priority for the Governor, was increased by \$250 million which partially restores state funds cut from this line in 2009-10. Other educational programs, including libraries, literacy programs, Accountability Block Grants and Educational Assistance Tutoring, were cut. Lawmakers also restored \$62 million in programs administered by the Department of Community and Economic Development, including some of the traditional “WAM” programs.

The budget does not include any additional recurring revenue sources. The state House of Representatives began debate on legislation that would have raised nearly \$300 million to avoid cuts and meet a recession-driven increase in demand for services, but leaders pulled the bill before a vote could be taken. As a result, Pennsylvania remains the only state without an excise tax on smokeless tobacco and one of only two states without a cigar tax. Lawmakers also preserved the sales tax vendor discount program for retailers and failed to close the Delaware loophole, which allows corporations to avoid paying corporate income taxes on Pennsylvania profits by funneling them to tax-haven states, like Delaware. Budget negotiators did agree to approve a severance tax on natural gas drilling in the Marcellus Shale by October 1, with the tax going into effect in January, but the budget does not count on revenue from that tax.

---

<sup>1</sup> The American Recovery and Reinvestment Act of 2009 (ARRA).

<sup>2</sup> This comparison includes state funds and federal stimulus funds that are specifically replacing state dollars (fiscal stabilization and increased federal Medicaid matching, or FMAP, funding).

Spending is supported through a projected 3.3% increase in revenue, transfers from special funds, and other one-time revenue sources. Most importantly, the budget assumes \$1.83 billion in federal FMAP funds, including \$850 million for the first two quarters of 2011 that is in jeopardy.<sup>3</sup> If Congress fails to approve the FMAP funding, Governor Rendell and legislative leaders will have to identify additional cuts in the budget.

With this budget, lawmakers may have avoided an Election Year “Armageddon,” but the plan only defers until next year the tough choices facing Pennsylvania, as federal ARRA dollars disappear and the state faces increased pension costs and transportation infrastructure needs. When the new Governor comes into office in January, he and lawmakers will have to face the loss of \$2.8 billion in federal aid, depleted state surplus funds and state revenues that, as in most states, have been diminished as a result of this recession.

<b>General Fund Summary (in \$ thousands)</b>					
	<b>2008-09 Actual</b>	<b>2009-10 Available</b>	<b>2010-11 Budget</b>	<b>Change from 2009-10</b>	<b>Percent Change</b>
State Funds	\$27,084,355	\$25,138,429	\$25,288,632	\$150,203	0.6%
Federal ARRA Funds	\$62,852	\$2,698,066	\$2,754,505	\$56,439	2.1%
<b>Total General Fund</b>	<b>\$27,147,207</b>	<b>\$27,836,495</b>	<b>\$28,043,137</b>	<b>\$206,642</b>	<b>0.7%</b>

## GENERAL FUND REVENUE

The \$28.043 billion budget includes \$25.3 billion in state funds and \$2.75 billion in federal ARRA dollars. The spending plan relies upon modest growth in existing state revenue, one-time fund transfers, enhanced efficiency (by increasing use of purchasing cards<sup>4</sup> and error reductions in tax processing), spending cuts, and a change in the timing of Tobacco Settlement payments. The budget also includes a new three-year hospital assessment that will raise \$121 million and draw down additional federal funds for Medical Assistance programs.

According to the Governor and legislative leaders, existing tax revenue is expected to grow by 3.3% in 2010-11, an increase of approximately \$820 million. Such a yield is achievable with modest growth in sales tax and personal income tax revenues as would be expected with a slow, mild economic recovery.

The budget relies on no new recurring revenue. Leaders have agreed to enact a severance tax on natural gas extraction in the Marcellus Shale by October 1, which will go into effect January 1, 2011, but revenue from the tax is not counted in the budget. Lawmakers did not enact an excise tax on smokeless tobacco and cigars, close corporate tax loopholes, or eliminate the sales tax vendor discount, as was proposed by Governor Rendell.

<sup>3</sup> FMAP refers to the federal percentage of matching funds for state Medicaid expenditures. ARRA enhanced the FMAP for states through December 2010. Legislation now before Congress would extend the enhanced FMAP funding to states through June 2011. On June 30, the U.S. Senate failed, for the fourth time, to pass a jobs bill that includes the FMAP funding.

<sup>4</sup> This is one of the recommendations of the Senate Government Management and Cost Reduction Commission that was enacted as part of the budget agreement.

Transfers from other state funds are down considerably in 2010-11 from the previous year, as the Rainy Day Fund and MCARE reserves have largely been exhausted. The Oil and Gas Lease Fund (with new expected revenue from natural gas leases on state lands<sup>5</sup>) is expected to provide \$180 million to the General Fund in 2010-11. A \$121 million transfer from the Tobacco Settlement Endowment Fund will help fund the state's share of pension costs for school employees. And a total of \$30.7 million will be shifted from other funds to help balance the General Fund books. Among these transfers is \$11.1 million from the Keystone Recreation, Park and Conservation Fund that was originally allocated to address deferred maintenance needs of the State System of Higher Education. Other transfers include the unused balances from the Pennsylvania Economic Revitalization and Low-Level Waste Funds, as well as available funds from several small economic development and local government assistance funds.

The budget also increases the total amount of Educational Improvement Tax Credits that can be awarded in 2010-11 from \$50 million to \$60 million. These credits were temporarily reduced as part of the 2009-10 budget deal.

## **AMERICAN RECOVERY AND REINVESTMENT ACT**

Federal ARRA funds continue to play an important part in the 2010-11 budget, offsetting more than \$2.75 billion in state spending. The ARRA State Fiscal Stabilization Fund (SFSF) will provide \$921 million for education and prisons – the same amount as in 2009-10. The enhanced FMAP funding is budgeted to provide an additional \$1.8 billion in 2010-11.

## **PUBLIC WELFARE**

State funding for the Department of Public Welfare (DPW) will decline slightly in 2010-11, but total funding will increase for the year. This is due in part to the availability of additional FMAP funds and in part to additional federal funds the Commonwealth will draw down through the enactment of a new statewide hospital assessment.

State General Fund spending in DPW will total \$8.607 billion, while federal funds will total \$16.4 billion. State General Fund spending for the department is \$545 million less than the Governor proposed. Most of this reduction is due to new revenue replacing state funds: \$287 million in additional FMAP funds to reduce the state's Medicaid Part D clawback payment and a new three-year hospital assessment which replaces \$121 million in the Medicaid inpatient line. However, the budget includes cuts to numerous programs: administrative lines (\$21 million); across-the-board cuts in a variety of programs (\$3.7 million); elimination of all proposed community waiver increases, including Long-term Care, Attendant Care and MR (\$27 million); and cuts to county child welfare (\$26.4 million) and mental health (\$15.5 million).

---

<sup>5</sup> The House of Representatives has overwhelmingly approved a bill (House Bill 2235) that would place a three-year moratorium on further leasing of state-owned forest land, pending the results of a comprehensive impact study of natural gas development on the state's forests. This bill awaits action in the Senate.

DPW programs are heavily dependent on temporary FMAP funds. The budget assumes four quarters of enhanced FMAP funding, totaling \$1.833 billion, even though Congress has not yet approved \$850 million of that funding. These funds are allocated throughout multiple DPW line items, including child welfare, mental retardation, Medical Assistance and TANF. FMAP funds have been used to replace state dollars that have then been redirected to other departments. If FMAP is extended by Congress with a lower price tag, as now seems the best and most likely scenario, further reductions will be required in many line items, including services for vulnerable Pennsylvanians.

### **Medical Assistance (MA)**

Enrollment in MA increased this year by another 2.9% to 2.1 million Pennsylvanians. The Governor's budget included an increase for enrollment and for additional utilization costs, which are included in the total.

Hospital uncompensated care payments, which were cut in the Governor's budget, were restored with funding from the hospital assessment. Rate increases for physical health and behavioral health managed care are approved, as is an increase in payments to nursing homes.

### **Cash Assistance and Supplemental Security Payments**

County Assistance Offices receive an \$8.9 million increase in state funds from 2009-10. Funding for the TANF job training and support program – New Directions – will decrease by \$21.8 million in state funds, a cut that is partially offset by a \$15 million increase in federal funds.

TANF cash grants using state dollars will increase by \$9.6 million over 2009-10, reflecting increased caseloads. The Governor's proposed \$5.3 million reduction in Supplemental Security Payments to the blind, elderly and people with disabilities is included. The budget reduces this line by an additional \$512,000, due to a 50% reduction in the number of new domiciliary care slots and adjustments in cost and caseload calculations.

### **Behavioral Health**

The mental health services line is reduced by \$34 million from 2009-10 for a total of \$695 million. Part of the reduction comes from the closing of the Allentown State Hospital, and a portion of the change is expected to be offset with other Medicaid dollars.

The Behavioral Health Services Initiative is reduced by \$2.1 million, from \$55.3 million to \$53.2 million, a 3.8% reduction.

### **County Child Welfare**

County child welfare programs were reduced from the Governor's request by \$26 million to \$1.046 billion. This represents a \$2.8 million cut from 2009-10 which will be reflected in county needs-based budgets.

## **Mental Retardation Programs**

A proposed \$6 million reduction in the MR waiver services line was restored, and the MR base services line is budgeted to increase by \$10 million to \$167 million. Funding for a proposed expansion to take 150 individuals off the waiting list is not included in the 2010-11 spending plan.

## **Child Care and Early Intervention**

State funding for early intervention (0 to 3 years old) is reduced by \$6.5 million, but the cut is offset by an increase in federal MA dollars. Child care for working families is held harmless; ARRA requires states to maintain child care funding. Child care funding for TANF recipients is cut by 0.6%, or \$1.1 million.

## **Other Human Services**

Despite recession-related increases in caseloads, human service programs received across-the-board cuts. Rape crisis, domestic violence, homeless assistance, legal aid, breast cancer screenings and expanded medical services to women all were cut by 0.8%. State health clinic funding is down by 17%. The Human Services Development Fund (HSDF), which provides flexible funds for county-based human services, is cut by \$5.9 million and is now funded at \$10 million less than in 2008-09.

## **New Waiver Slots Deferred**

The Governor's budget included proposals to expand community-based waiver programs. A \$9.9 million increase in the Long-Term Living LIFE program for frail elderly Pennsylvanians was not included in the final budget.

A planned \$9 million in additional funding for the Aging waiver and new assisted living waiver, \$5.3 million in Act 150 and Attendant Care waivers, and \$2 million for community MR waivers were all removed from the final budget.

## **EDUCATION**

The Department of Education is funded at \$10.3 billion in General Fund dollars, an increase of \$144.5 million, or 1.4% from last year. The change in funding reflects a \$250 million increase in state funding for basic education, coupled with cuts to early childhood programs, literacy services, libraries, job training and several other programs. Higher education was flat-funded in 2010-11.<sup>6</sup>

The education budget relies heavily on temporary ARRA funding. The 2009-10 budget increased total basic education funding by \$300 million, but state funding for basic education was cut that year by \$354 million. The overall basic education increase was achieved by using \$654.7 million in temporary ARRA funds. The \$250 million increase in 2010-11 will partially restore the state funds that were cut last year. Similarly, state funds for community colleges, the State System of Higher Education and the state-related

---

<sup>6</sup> State and state-related higher education institutions saw no change in state funding in 2010-11. State support for non-state schools, including Drexel University and Philadelphia College of Osteopathic Medicine, among others, was reduced from \$32 million to \$30 million.

universities, including Penn State, were cut in 2009-10 and replaced with ARRA dollars. In 2011-12, state funding will need to be restored for basic education and higher education.

<b>Education Summary (in \$ thousands)</b>					
	<b>2008-09 Actual</b>	<b>2009-10 Available</b>	<b>2010-11 Budget</b>	<b>Change from 2009-10</b>	<b>Percent Change</b>
Pre-K -12 Education <sup>7</sup>	\$9,722,155	\$9,215,005	\$9,362,182	\$147,177	1.6%
ARRA - Fiscal Stabilization	0	\$654,747	\$654,747	0	0.0%
Higher Education <sup>8</sup>	\$1,043,861	\$959,922	\$957,434	(\$2,488)	-0.3%
ARRA - Fiscal Stabilization	\$35,377	\$52,742	\$52,742	0	0.0%
<b>Total Education Spending</b>	<b>\$10,801,393</b>	<b>\$10,882,416</b>	<b>\$11,027,105</b>	<b>\$144,689</b>	<b>1.3%</b>

**Basic education funding** will increase by \$250 million, or 5.1%. With this increase, state basic education funding will remain below 2008-09 levels. With the continuation of \$654.7 million in federal ARRA funds, basic education spending will total \$5.78 billion.

**Special education** is level-funded at \$1.03 billion for the third year. ARRA funds distributed directly to school districts pay for some additional costs.

Early Intervention for 3- to 5-year-olds will increase by \$8.6 million to \$182.1 million – less than the \$12.6 million increase proposed by the Governor.

### **Early Childhood Education Programs**

Funding for Pre-K Counts is reduced by \$1.2 million, or 1%, to \$85.2 million. The Head Start Supplemental Assistance Program is reduced by \$1.1 million, or 3%, to \$38.4 million. These cuts exceed smaller ones proposed by the Governor in February.

### **Libraries and Literacy**

The public library subsidy is reduced by \$5.5 million, or 9%, to \$54.5 million, less than the 2004-05 appropriation. The State Library, which was cut by 50% in 2009-10, sustains an additional cut of 7% in 2010-11, funded at \$2.2 million. Adult literacy gets hit with a 16% cut, bringing funding to \$14.9 million, down from \$23 million in 2008-09.

### **Other Education Programs**

Accountability Block Grants are cut by \$12 million, or 4.4%, to \$259.5 million, and the Educational Assistance Tutoring Program is cut by \$11.5 million, or 19.5%, to \$46.6 million.

<sup>7</sup> Pre-K-12 education also includes state support of libraries.

<sup>8</sup> Higher Education includes community colleges, state-related colleges (Penn State University, University of Pittsburgh, Temple University, and Lincoln University), the State System of Higher Education colleges, Thaddeus Stevens College of Technology, as well as small appropriations for private colleges within Pennsylvania. Some of these line items are funded outside the Department of Education budget.

Charter school reimbursements are cut by \$2.9 million to \$224.1 million, and Career and Technical Education is funded at \$62 million for the second year.

Funding for Science: It's Elementary was cut in half, to \$6.9 million. Teacher professional development funding took a 14% cut, and School Improvement Grants are trimmed by 6%.

### **Higher Education**

Community colleges, the State System of Higher Education and the state-related universities (Penn State, Temple, Pitt, and Lincoln) were all flat-funded in this budget.

Community colleges will receive \$214.2 million in state subsidies, \$21.5 million in ARRA funds and \$46.4 million in capital funds – for a total of \$282.1 million. The 14 schools in the State System of Higher Education will receive \$503.4 million – \$465.2 million in state funds and \$38.2 million in ARRA funds. The state-related universities will receive \$688.4 million in combined state and ARRA funds. The University of Pennsylvania will also receive \$30 million for various medical and veterinary programs.

## **RETIREMENT PROGRAMS**

### **School Employees**

The budget decreases the General Fund share of the employer contribution to school employees' retirement but offsets that with a \$121 million transfer from the Tobacco Settlement Endowment Fund – for a total of \$408.6 million. The Commonwealth, school districts and employees contribute to retirement costs, with employee contributions averaging twice the combined state and school district contribution over the past 10 years.

### **State Employees**

The retirement costs for state employees are paid by each department. The State Employee Retirement System (SERS) recommended that the state's contribution rate (which is the employer share of retirement costs) be set at 5.6% of salary costs. Over the course of 2010-11, this rate would have raised \$335 million for the retirement fund. The budget reduced the rate the state will pay to 5%. This will slightly reduce the amount of funding the state has to come up with in 2010-11, but increases the amount that will be needed to be paid down the road. In 2009-10, the state's pension fund contribution was \$226 million, according to SERS.

### **Retirement Reform**

Retirement reform was an item that was considered during budget negotiations to help reduce the upcoming pension "rate spike" that will be felt by both school districts, the state, and, ultimately, taxpayers. The House of Representatives overwhelmingly passed House Bill 2497 (192-6), which would help address the issue. The Senate has yet to act on the plan.

## **ARTS AND CULTURE**

Arts programs sustained additional cuts in 2010-11. Grants to the Arts are reduced by \$2.6 million, from \$11 million in 2009-10 to \$8.4 million in 2010-11. Over the past two years, arts funding has declined by 42%.

Public Television funding, which was reduced from \$7.6 million in 2008-09 to \$1 million in 2009-10, is completely eliminated in 2010-11.

The Pennsylvania Historical and Museum Commission, which provides funding to state museums and historic sites, sustained a cut of 16.7%. General operations are cut by \$1.1 million and \$1.8 million in museum assistance grants are completely eliminated. Funding for nine museums, from the Franklin Institute in Philadelphia to the Carnegie Science Center in Pittsburgh, was also eliminated.

## **ENVIRONMENTAL PROTECTION AND CONSERVATION**

For the second straight year, the Departments of Conservation and Natural Resources (DCNR) and Environmental Protection (DEP) will see large General Fund budget cuts.

DCNR will get a General Fund budget reduction of \$9.9 million, or 10.7%, in 2010-11. These include cuts to state forest (30.5%) and state park operations (7.3%). Prior to 2009-10, DCNR operations were partly supported by the Oil and Gas Lease Fund (OGLF). In 2009, with the fund swelling as a result of gas leases on state property, OGLF funds were diverted to the General Fund. The budget sends \$180 million from the Oil and Gas Lease Fund (money the state collected to lease state parks and forestland to natural gas drilling) to the General Fund. When looking at all funding sources, including federal dollars, fees, and other income, DCNR receives a 9.5% budget cut in 2010-11.

General funding for DEP will be reduced by \$13.9 million, or 8.7%, from 2009-10. Overall funding to the department falls by 2.2% in 2010-11. Funding cuts include environmental protection operations and Black Fly and West Nile Virus control programs. Programs funded using Environmental Stewardship Fund, Growing Greener, and Recycling Fund dollars are expected to be reduced, as well. These reductions come at a time when the natural gas industry is demanding more services so that companies can develop the Marcellus Shale that underlies much of the state. The number of well inspectors is supposed to increase, funded by an increase in environmental fees paid by natural gas drillers.

## **AGRICULTURE**

The Department of Agriculture's budget is cut by \$5 million, or 7.3%, from 2009-10. Funding for general government operations was cut by \$1.4 million, while payments to fairs were cut by \$1 million. The budget restores partial funding for agricultural research, export promotion, and hardwood and food marketing programs, which were eliminated under the Governor's original budget.

## ECONOMIC DEVELOPMENT

After sustaining a cut of more than 50% last year, the Department of Community and Economic Development (DCED) budget will increase by \$62 million, or 23.6%, in 2010-11. Despite the overall increase in the DCED budget, funding for Elm Street/Main Street projects, housing redevelopment and shared municipal services are cut. Most of the funding increase is due to the revival of a number of programs that provide dollars to local groups and businesses, called “Walking Around Money” or WAMS, which received no funding in 2009-10.

### Traditional WAM Program Funding, 2008-09 to 2010-11 (in \$ thousands)

Program	2008-09 Actual	2009-10 Available	2010-11 Budget
Community Conservation and Employment	\$40,000	\$0	\$24,200
Community Revitalization	39,550	0	0
Urban Development	18,750	0	10,558
Economic Advancement Program (EAP)	16,800	0	0
Regional Development Initiative	12,000	0	3,000
Economic Growth & Development Assistance	6,200	0	3,092
Community & Municipal Facilities Assistance	5,500	0	3,000
Cultural Activities	3,400	0	2,400
Business Retention & Expansion Program	2,948	1,000	704
Community and Business Assistance	2,000	0	9,000
Manufacturing and Business Assistance	900	0	705
<b>Traditional WAM Program Totals</b>	<b>\$148,048</b>	<b>\$1,000</b>	<b>\$56,659</b>

## CORRECTIONS AND PUBLIC SAFETY

The budget allocates \$1.7 billion for the Department of Corrections, an increase of \$82 million, or 5.1%. This is \$55 million less than the Rendell administration had proposed in February.

The department’s funding will increase to reflect a 4.7% increase in the state’s prison population, from 51,000 in 2009-10 to 53,500 in 2010-11. Medical care costs for inmates, like any other segment of the population, are expected to rise, increasing by \$14 million, or 6.1%, from 2009-10 levels. To reduce the

overall increase in the department’s budget, administration and inmate training was cut 6.4% and 1.4%, respectively, from 2009-10 levels.

<b>Corrections and Public Safety Summary (in \$ thousands)</b>					
	<b>2008-09 Actual</b>	<b>2009-10 Available</b>	<b>2010-11 Budget</b>	<b>Change from 2009-10</b>	<b>Percent Change</b>
Corrections	\$1,605,505	\$1,612,329	\$1,693,956	\$81,627	5.1%
ARRA - Fiscal Stabilization	0	172,911	172,911	0	0.0%
Attorney General	94,509	86,522	83,007	(3,515)	-4.1%
State Police	182,305	182,664	175,568	(7,096)	-3.9%
Probation and Parole	111,605	117,664	120,531	2,867	2.4%
<b>Total Corrections and Public Safety Spending</b>	<b>\$1,993,924</b>	<b>\$2,172,090</b>	<b>\$2,245,973</b>	<b>\$73,883</b>	<b>3.4%</b>

The Pennsylvania Board of Probation and Parole also receives a General Fund increase of \$74 million, or 3.4%, in 2010-11, in response to the addition of more than 1,500 parolees under the board’s supervision during the year.

The Attorney General’s Office and State Police see reductions in their General Fund allocations in 2010-11. Most programs within the Attorney General’s Office received across-the-board funding cuts of 3.8%. While the State Police received a \$7.1 million cut in General Fund dollars, the department had an increase of \$14.6 million from the Motor License Fund, more than filling the General Funding decrease.

## **HEALTH CARE**

State funding for the Children’s Health Insurance Program (CHIP) is essentially level-funded in 2010-11. A proposed expansion to serve an additional 10,000 children was not included in the final budget.

The budget appropriates \$41 million in federal funds for a high-risk pool established under the federal Patient Protection and Affordable Care Act. The program is expected to begin enrolling participants in mid-July and will continue with federal funds through December 2014.

The budget agreement does nothing to secure the future of the adultBasic program, which is slated to end in December 2010. The program is funded in part through the Tobacco Settlement Fund and in part through Community Health Reinvestment contributions from the state’s nonprofit Blue Cross/Blue Shield plans.

## **LEGISLATURE & THE COURTS**

Funding for the General Assembly is increased by \$931,000, although that is mostly driven by a \$2.4 million appropriation for a Legislative Reapportionment Commission. Every 10 years, the Legislature must form such a commission to redraw state legislative and congressional district lines in accordance with changes in population recorded by the Census.

Funding for operations in the Senate and House of Representatives will decrease slightly in this budget. Operations in the House of Representative are funded at \$183.6 million (down \$1 million), while Senate operations are funded at \$92 million (down \$119,000).

Other legislative bodies sustained modest cuts: the Legislature Reference Bureau: \$7.4 million (down \$75,000); the Legislative Data Processing Center: \$2.8 million (down \$28,000); the Health Care Cost Containment Council: \$ 2.7 million (down \$134,000); the State Ethics Commission: \$1.8 million (down \$194,000); the Legislative Budget and Finance Committee: \$1.8 million (down \$18,000); and the Joint State Government Commission: \$1.4 million (down \$14,000).

After sustaining a 10% cut last year, all state courts – including the three appellate courts, local county and city courts, and other judicial bodies – are flat-funded in this budget at \$276.9 million.

## CONCLUSION

This budget marks a missed opportunity for the General Assembly to address future fiscal challenges by enacting recurring revenue measures. The Legislature’s decision to take up a severance tax on natural gas production in the fall is promising, but the Commonwealth needs additional revenue now – to prevent some of the worst cuts and to put the state’s finances on surer fiscal footing. Pennsylvania faces no shortage of fiscal challenges in the coming years, including the loss of ARRA funding, increased pension costs and the need for additional transportation infrastructure funding. Just as troubling is the Commonwealth’s reliance this year on \$850 million in federal FMAP funding that may or may not be coming, depending on what happens in Congress.

While early childhood programs, domestic violence services and mental health care sustain cuts, and thousands more Pennsylvanians face job losses, lawmakers have left recurring revenue – including tobacco taxes on cigars and smokeless tobacco and closing other tax loopholes – on the table. This is not only bad for working families and vulnerable Pennsylvanians, but it also will cost jobs and set back the Commonwealth’s fragile economic recovery.

Lawmakers may have avoided a prolonged budget fight in an election year, but all they have really done is defer the difficult choices until a new governor takes office next year.