

## Final 2012-13 Budget Analysis: Failing to Invest in a Stronger Pa. Economy

### Overview

The General Assembly has enacted a 2012-13 state budget that restores some of the cuts proposed by Governor Tom Corbett to public schools, universities and other services, while leaving intact a 10% cut to human services and deep cuts to education made in 2011. The budget continues to shift costs to local governments and taxpayers, while adding new tax breaks for businesses. Although the state ended the year with a \$649 million fund balance, the budget fails to make the investments that are essential to building a strong economy or to reverse a recent trend where job growth in the commonwealth has lagged behind other states.

Overall spending, at \$27.656 billion, is \$517 million more than the Governor's February proposal. Still, the final budget remains below budgeted 2008-09 levels, despite four years of recession-driven increases in demand for services. Compared to 2010-11, this budget cuts spending by 1.4%, with public schools, higher education, environmental protection and economic development taking the biggest hits.

<b>2012-13 State Budget Leaves Spending Lower than in 2010-11</b> (General Fund Spending In \$ Millions)			
	<b>2010-11</b>	<b>2012-13</b>	<b>% Change</b>
Public Welfare	\$10,537	\$10,585	0.5%
Education - Classrooms	\$6,090	\$5,506	-9.6%
Education - Total PreK-12	\$9,686	\$9,661	-0.3%
Education - Higher Education	\$1,888	\$1,587	-15.9%
Public Safety	\$2,147	\$2,233	4.0%
Environment	\$223	\$178	-20.4%
Governor/Legislature	\$480	\$478	-0.3%
Community & Econ. Development	\$293	\$238	-18.9%
Agriculture	\$137	\$130	-5.3%
Labor & Industry	\$84	\$73	-13.5%
Insurance	\$121	\$123	1.5%
<b>Total General Fund</b>	<b>\$28,040</b>	<b>\$27,656</b>	<b>-1.4%</b>

The largest cut in this budget is \$160 million for the General Assistance Program, which is eliminated effective August 1. General Assistance provides a temporary \$205 monthly benefit to 68,887 Pennsylvanians who are sick, disabled or escaping an abuser. Over the years, it has provided a bridge to a better life for hundreds of thousands of Pennsylvanians.

Schools and universities were essentially flat-funded in this budget. The Governor had targeted three state-related universities, Penn State, Temple and Pitt, for 30% cuts and the 14 state-run universities for 20% cuts, but lawmakers restored the universities' funding in the end – in exchange for limited tuition increases.

The budget leaves in place cuts to education that have diminished the quality of instruction in our poorest school districts and resulted in the loss of 14,000 jobs in 2011. Sixteen school districts in financial distress, in large part because of last year's cuts, got a bit of a reprieve, with \$40 million in additional funding. Accountability Block Grants, which support full-day kindergarten and other early childhood programs, also survived after the Governor initially proposed eliminating the funding.

<b>2012-13 General Fund Summary</b> (in \$ thousands)					
	<b>2011-12 Available</b>	<b>2012-13 Proposed</b>	<b>2012-13 Final</b>	<b>Change from Available</b>	<b>Percent Change</b>
General Fund	\$27,160,435	\$27,138,970	\$27,656,381	\$517,411	2.0%

A block grant proposal for county human services was viewed by many as a trial for a broader Medicaid waiver that could limit funding and enrollment for health care services. Under the leadership of state Representative Gene DiGirolamo, the House kept the human services block grant out of the budget, but a pilot program will put the block grant into effect in as many as 20 counties. That is a much larger pilot program than the five-county, two-year approach initially proposed by Representative DiGirolamo.

Even without a full human services block grant, Governor Corbett insisted on a 10% cut to county mental health services, homeless assistance, and services for people with intellectual disabilities. The Governor had sought a 20% cut, but the Senate and House made a partial restoration, as state revenue collections recovered in the spring.

The budget squeezes money out of human services and General Assistance at the same time it doubles the amount of tax dollars diverted to private schools through tax credits. The budget increases the \$75 million currently spent on the Educational Improvement Tax Credit (EITC) to \$100 million and spends an additional \$50 million on a new scholarship program for students living in the attendance boundaries of low-achieving schools. Both programs provide tax credits to corporations that donate to scholarship organizations providing tuition scholarships largely to students attending private schools. The program is structured in a way that provides very little public accountability for how tax dollars are spent. A 2005 law prevents the state from collecting anything but minimum information on the scholarships. The new law requires slightly more reporting but does not require scholarship organizations to provide expenditure or outcomes data.

This budget also continues the ongoing phase-out of the capital stock and franchise tax, which will cost at least \$275 million over two years. In addition, it makes the final move to a corporate income tax apportionment formula based entirely on sales, which does little to benefit most Pennsylvania corporations. In fact, the change raises taxes on a sizeable number of corporations. It is part of a decade-long pattern that will see the commonwealth spending \$2.4 billion on corporate tax breaks in the new budget. That amount has tripled over the last 10 years and does not count the hundreds of millions of dollars lost annually to corporate tax loopholes. Most of these tax breaks primarily benefit the largest corporations and come with no commitment to create jobs.

As the economy continues to recover, Pennsylvania will need to make public investments to build a strong economy and make Pennsylvania a place where families will want to live. This budget takes a small step in that direction, but falls well short of where we need to be.

## General Fund Revenue

The Governor’s February budget was built around a projected \$719 million year-end deficit. Almost immediately, state revenue collections improved, and total General Fund revenue for 2011-12 came in only slightly off from official estimates —down \$163 million, or 0.6%, for the fiscal year. Tax revenue grew by \$688 million, or 2.6%, from 2010-11, reflecting continued but sluggish economic growth in the wake of the Great Recession.

Revenue growth in 2012-13 is expected to be modest, increasing \$912 million, or 3.3%, from 2011-12, as a decline in corporate taxes offsets a portion of the expected growth in personal income and sales tax collections.

Revenue Growth in 2012-13 Projected to be Modest Due to Corporate Tax Decline			
	2012-13 Estimate	Growth from 2011-12	% Growth
Personal Income Tax	\$11.286 billion	\$485 million	4.5%
Sales Tax	\$9.219 billion	\$447 million	5.1%
Corporate Taxes	\$4.915 billion	-\$49 million	-1.0%
Other Taxes	\$2.661 billion	\$49 million	1.9%
Total GF Taxes	\$28.081 billion	\$932 million	3.4%
Non-tax Revenue	\$509 million	-\$20 million	-3.8%
<b>Total GF Revenue</b>	<b>\$28.590 billion</b>	<b>\$912 million</b>	<b>3.3%</b>

Personal income tax, the General Fund’s largest source of revenue, is projected to increase by \$485 million, or 4.5%, from 2011-12 levels. This is consistent with the 4.1% wage growth estimate reported by the Independent Fiscal Office in June. During economic recoveries, personal income growth is typically stronger than this, often 6% to 7%; the lower rate is indicative of the stubbornness of the current recovery.

Sales tax, the second largest source of revenue, is estimated to increase by \$447 million, or 5.1%, from 2011-12. Unlike personal income, this reflects strong growth of consumption, including a predicted increase in vehicle sales of 11.3%. This also reflects greater collections compliance by Internet retailers.

Corporate taxes, in total, are expected to decline in 2012-13 to \$4.9 billion in total – a decrease of \$49 million, or 1%. This is due primarily to the capital stock and franchise tax (CSFT) rate cuts in 2012 and 2013. CSFT collections are expected to drop to \$539 million in 2012-13, a decrease of \$298 million, or 36%, as the rate falls from 1.89 mills to 0.89 mills.

Corporate net income tax (CNIT) is expected to increase by \$182 million, or 9%, but this is not enough to offset the loss of CSFT. Some of the expected growth in CNIT is due to increased income from companies that used 100% bonus depreciation to write off equipment purchases in 2011. If Congress elects to continue 100% bonus depreciation in tax year 2012, which will not be known until October 2012 or later, corporate net income tax collections would likely fall short of estimate in 2012-13.

## Major Tax Changes Enacted in Budget

The 2012-13 budget included a number of tax changes, most notably new and expanded tax credits that continue to whittle away at the state's revenue base. Tax credits are a politically popular form of business incentive where a taxpayer, usually a business, is able to reduce tax liability for performing certain functions – like creating a job, making a donation, or processing ethane. Tax credits reduce the amount of revenue available for funding schools, health care, or other services, but are often subject to less scrutiny than spending programs.

The budget expands the Educational Improvement Tax Credit (EITC), a popular but lightly regulated program providing tax credits to businesses that donate to private and pre-K scholarships, and creates a closely related program called the Education Opportunity Scholarship program (EOS). Total spending on the EITC is increased from \$75 million to \$100 million, while an additional \$50 million will be spent on the EOS. Like the EITC, the EOS provides annual tax credits to businesses that make donations to scholarship organizations. The EOS targets the scholarships to children living in the attendance boundaries of the lowest performing 15% of public schools in the state, although children do not have to attend a low-performing school to receive the scholarship. Scholarships are used to pay for private school tuition or non-resident public school tuition in a neighboring district. Children receiving scholarships are not guaranteed admittance to other schools.

The much discussed natural gas cracker plant tax credit (for Shell and potentially other companies) was enacted as part of the budget. Beginning in 2017, an ethane cracker operating in Pennsylvania may be able to generate a tax credit equal to \$0.05 per gallon of ethane the plant converts to ethylene. Unused tax credits may be sold to other entities in the cracker plant's supply chain (either producers of natural gas or users of ethylene) or any other business. The credit runs from 2017 to 2042 and has no statutory limit.

Several other tax credit programs are created or changed in the budget. Additional details can be found at <http://pennbpc.org/2012-13-tax-code>.

The 2012-13 budget agreement includes a number of other notable tax changes, including:

- A family farm exclusion in the state inheritance tax and realty transfer tax – creating an exemption not offered to other types of taxpayers;
- A shift in the corporate income tax apportionment formula (used to determine how much of a multi-state company’s income is subject to tax in Pennsylvania) to one based entirely on sales, rather than taking property or wages paid in a particular state into account. This change to what is often called “single sales factor” occurs January 1, 2013 and is expected to reduce tax collections by \$12 million in 2012-13 and \$48 million per tax year once it is fully phased in; and
- A requirement that companies paying gas and oil royalties notify the Department of Revenue so that the department can ensure recipients are reporting and paying tax on the income.

While not enacted as part of the 2012-13 budget, the CSFT rate will decrease from 1.89 mills to 0.89 mills beginning on January 1, 2013. Projected revenues from CSFT in 2012-13 are expected to drop by \$289 million, or 36%, from the prior year due in large part to legislated rate cuts. Without legislative action, the tax will be eliminated beginning in tax year 2014.

## Education

The 2011-12 budget cut \$865 million from public schools, forcing many school districts to cut programs and reduce staff. The reductions included a loss of \$421 million in the basic education subsidy line, resulting from the administration’s decision not to replace expiring federal Recovery Act funds, and \$442 million in cuts to state-funded programs, including the reimbursement to school districts for charter school expenses, the Educational Assistance Tutoring Program (EAP) and \$159 million of \$269 million allocated to the Accountability Block Grant program. The final 2012-13 budget leaves most of those cuts intact, with classroom funding down almost 10% from two years ago.

Education Funding (in \$ millions)			
	2010-11	2012-13	% Change
Education - Classrooms	\$6,090	\$5,506	-9.6%
Education - Total PreK-12	\$9,686	\$9,661	-0.3%
Education - Higher Education	\$1,888	\$1,587	-15.9%

The General Assembly made two significant restorations to classroom funding over the Governor’s February budget proposal. First, the budget restores \$100 million to the Accountability Block Grant (ABG), which has allowed districts to fund full-day kindergarten, pre-kindergarten and innovative research-based programs. In a legislative sleight of hand, the program was funded last year out of the surplus from the 2010-11 fiscal year, but the funds were distributed to school districts in 2011-12. In his February budget proposal, the governor eliminated ABG funding altogether, but lawmakers restored it.

The other significant boost in classroom funding was an additional \$49 million added to the basic education line, which includes \$39 million in grants to financially distressed school districts and close to \$10 million in a Financial

Recovery Transitional Loan fund. The lowest-income school districts shouldered a disproportionate share of the cuts enacted last year, and many have been struggling financially as a result. Fourteen school districts will receive distressed schools allocations, although the Philadelphia School District is not eligible for distressed district funding.

<b>Distressed School District Allocations 2012-13</b>		
<b>School District</b>	<b>County</b>	<b>Amount</b>
Chester-Upland	Delaware	\$9,708,322
York City SD	York	\$5,429,723
Allentown City SD	Lehigh	\$4,009,915
Reading City SD	Berks	\$3,732,241
Erie City	Erie	\$2,930,774
Lancaster City	Lancaster	\$2,410,858
Upper Darby	Delaware	\$2,000,000
Pocono Mountain SD	Monroe	\$2,000,000
Harrisburg City	Dauphin	\$1,732,162
Stroudsburg Area SD	Monroe	\$1,500,000
Coatesville SD	Chester	\$1,000,000
Lebanon SD	Lebanon	\$994,965
Steel Valley SD	Allegheny	\$559,026
Sto-Rox SD	Allegheny	\$440,974
Westmont Hilltop SD	Cambria	\$300,000
Jeannette City SD	Westmoreland	\$250,000

The General Assembly also passed a distressed schools bill that creates an early warning system for school districts in financial distress. It gives the commonwealth broad new powers to assign a recovery officer to districts and to implement a financial recovery plan.

Governor Corbett proposed a Student Achievement Block Grant that would have combined the basic education subsidy, pupil transportation costs and Social Security costs, but the General Assembly rejected the plan. It was vigorously opposed by school district officials concerned that the new block grant would not accurately reflect the costs of services that rise faster than inflation, and the result would be fewer dollars in the classroom.

Special education is level funded for the fifth straight year, at \$1.027 billion. A special education reform bill, Senate Bill 1115, which establishes a commission to develop a formula that better allocates special education funds, passed both chambers, but became the vehicle for controversial changes to the charter school law and ultimately was not adopted. Action is expected on the special education bill in the fall of 2012.

Overall spending in the prekindergarten-to-12 education lines increased by 3% from 2011-12 available.

The budget includes the first large increment of increased retirement funding for school districts. The state pays 50% of the cost of public school pensions. The final budget shows those costs increasing from \$600 million in 2011-12 to \$856 million in 2012-13. That is \$60 million less than the Governor budgeted, reflecting lower-than-anticipated retirement costs.

The Social Security portion of school retirement costs were removed from the block grant and funded at \$544 million, down \$10 million from 2011-12.

The professional development line item includes \$3.7 million to develop a teacher and principal evaluation tool. Legislation to implement a new teacher evaluation program was adopted in June.

Other areas that saw increased funding include the Pennsylvania Assessment, which increased by \$15.6 million to \$52.2 million. This reflects the agreement to move forward with the Keystone Exams.

There was a small increase in job training and education programs. The Governor's proposed cuts to funding for non-public schools were restored, leaving those services, which include transportation, books and other services, funded at \$112.6 million.

### **Early Childhood Programs**

The Governor's proposal to increase funding for Early Intervention for 3-5 year olds by \$8 million to \$206 million is included in the final budget.

Funding for Pre-K Counts remains at the 2011-12 budgeted level of \$82.8 million. The final budget restored a \$4 million cut proposed by the Governor in February. Funding for the Head Start Supplemental program is restored to \$37.3 million.

### **School Construction**

The Governor proposed a moratorium on new school district construction projects. The Department of Education will review its construction approval process known as PlanCon. The budget line reflecting the state contribution to school construction projects is flat funded at \$296,198. Current projects in the construction approval process will not be affected by the moratorium.

### **Food Service**

The budget eliminates \$3.3 million in food service funds authorized as part of the Prescription for PA health care program.

## **Libraries and Literacy**

Adult literacy took another cut in the budget, bringing total funding to \$11.7 million, down from \$23.4 million prior to the recession.

The General Assembly restored \$2.7 million in cuts to libraries proposed by the Governor, keeping funding at the current level of \$53.5 million. The State Library sustained another small cut in funding, down to \$1.9 million.

## **Higher Education**

The Commonwealth's higher education institutions – including the 14 campuses of the state system, Penn State and the state-related institutions – saw their funding slashed by 19% in 2011-12 and were slated for additional 20% to 30% cuts in the Governor's February proposal. Those cuts, totaling \$237 million, were restored by the General Assembly, as advocates made the successful argument that the close to 20% reduction last year was greater than many agencies and should be accepted as a two-year cut.

The State System of Higher Education was funded at \$412.8 million, with \$82.5 million restored from the Governor's plan. The State System's share of funding from the Keystone Park, Recreation and Conservation Fund, another \$8.4 million, was also restored.

Funding cuts in the Governor's proposal were also restored to Penn State, Temple University and the University of Pittsburgh. Penn State is funded at \$227.7 million (\$64 million restored), Temple at \$140 million (\$41 million restored) and Pitt at \$134 million (\$40 million restored). Lincoln University is level funded at \$11.2 million.

In exchange for level funding of higher education, lawmakers extracted promises from the institutions to rein in tuition hikes. On June 30, Penn State announced a 2.9% increase of in-state tuition, touted as the lowest in history, and increases of 1.9% at branch campuses.

In other areas of higher education, the commonwealth's community colleges are funded at the current year level of \$212 million. There is a small increase of \$1.5 million in the Community College Capital Fund.

The budget cuts \$36.8 million in General Fund dollars for the Pennsylvania Higher Education Assistance Agency (PHEAA), but the PHEAA Board of Trustees voted to fund tuition assistance with \$75 million in reserve funds. Last year PHEAA used \$50 million of reserves to stave off cuts.

## **Health Care and Public Welfare**

The Department of Public Welfare (DPW) provides healthcare for 2.2 million Pennsylvanians as well as funding for county-based human services, early learning and supports for seniors, people with disabilities and low-income Pennsylvanians.

In the 2012-13 budget, DPW is appropriated \$10.6 billion in state General Fund dollars, an increase of \$65 million, or 0.6%, from the Governor’s proposal and an increase of \$35 million, or 0.3%, from 2011-12. Since 2010-11, the increase is only \$49 million, or 0.5%.

<b>Public Welfare Funding (in \$ millions)</b>			
	<b>2010-11*</b>	<b>2012-13</b>	<b>% Change</b>
Public Welfare	\$10,537	\$10,585	0.5%

- Includes \$1.757 billion of temporary federal matching percentage for Medicaid (FMAP)

With additional available revenue, the General Assembly restored portions of funding for a number of DPW programs that were cut in the Governor’s February proposal. One notable exception was General Assistance cash grants, which are to be eliminated August 1. This eliminates a critical source of support for nearly 69,000 Pennsylvanians.

### **Medical Assistance**

Medical Assistance (MA), Pennsylvania’s Medicaid program, provides health care and long-term care to 2.1 million Pennsylvanians and is paid for in partnership with the federal government.

<b>Changes in “Big 5” Medical Assistance Programs (State General Fund)</b> (in \$ millions)						
	<b>2010-11 Actual</b>	<b>2011-12 Available</b>	<b>2012-13 Governor</b>	<b>2012-13 Final</b>	<b>Change from 2011-12</b>	
Outpatient	\$672,795	\$645,095	\$506,677	\$360,137	\$-284,958	-44%
Inpatient	346,323	325,685	275,208	204,667	-121,018	-37%
Capitation	3,284,262	3,330,457	3,667,626	3,780,674	450,217	14%
Long-Term Care	1,095,856	965,614	981,945	1,016,307	50,693	5%
Medicare - Part D	209,952	473,612	521,035	510,915	37,303	8%
<b>Subtotal</b>	<b>\$5,609,188</b>	<b>\$5,740,463</b>	<b>\$5,952,491</b>	<b>5,872,700</b>	<b>\$132,237</b>	<b>+2%</b>

The most notable change in state funding for MA in the budget is the shift from outpatient (care provided outside of an institution on a fee-for-service basis) and inpatient (care provided at one of the 228 hospitals or 93 residential treatment centers across the state) to capitation (care delivered under a managed care system). In 2012-13, HealthChoices, the state’s MA managed care program, will expand from 25 to all 67 counties. In the process, the 330,000 people enrolled in the fee-for-service Access Plus will be moved over to HealthChoices, and Access Plus will be eliminated.

Within the MA – Inpatient program, the Governor’s proposed budget cut state reimbursements of nursery care for healthy newborns. This was one of the changes enacted in Act 22. The Legislature restored \$5 million of this funding.

The proposed budget had sought a 4% rate decrease for acute care, psychiatric, and rehabilitation hospitals, which was to save \$12.5 million in state funds. The final budget did not enact these rate reductions. However, hospitals see a net funding decrease due to a \$24 million reduction in Case Mix Index (CMI) payments.

The budget anticipates savings from the review and management of high-cost cases, as was proposed by the administration. The final budget assumes less savings from these efforts – \$30 million rather than \$45 million anticipated in the Governor’s proposal.

The Governor had proposed a \$47 million increase in clawback payments to the federal government for drug coverage for seniors under Medicare Part D. The final budget reduced the increase to \$37 million (total funding \$511 million).

The final budget includes an additional \$34 million in state General Fund dollars for long-term care services over what the Governor had proposed. Lottery funds used for providing long-term care increase from \$178 million in 2011-12 to \$309 million in the enacted budget.

### **Human Services Pilot Program Enacted**

Governor Corbett had proposed creating a Human Services Development Fund Block Grant that would combine portions of funding for Mental Health Services, Outpatient, Intellectual Disabilities – Community Base Program, and County Child Welfare Services with all funding for Behavior Health Services and Homeless Assistance. The Legislature rejected the statewide block grant and instead created a voluntary pilot program for up to 20 counties to join.

The Governor’s budget proposed cutting the services in the block grant by \$168 million, or 20%, but the Senate approved a budget that restored half of the cut, \$84 million. While it was expected that the House might make additional restorations, the final budget includes a 10% cut in each of the seven line items.

Find more information on the Human Services Block Grant Pilot Program at <http://pennbpc.org/block-grant-pilot>.

### **General Assistance Eliminated and MA for General Assistance Eligibles in Jeopardy**

Despite a vigorous effort by advocates, the General Assistance cash grant program was eliminated, as the Governor had proposed. The Legislature did postpone the elimination of the program from July to August, providing recipients with an additional month of benefits.

Of great concern are changes to eligibility for Medical Assistance for GA recipients. DPW proposed cutting \$160 million by eliminating GA-related MA, but backed off almost immediately on that claim. The Welfare Code bill includes changes to the eligibility criteria used for both medically needy and categorically needy chronically ill adults. DPW will be tightening standards used to evaluate temporary disabilities for categorically needy applicants. Custodial parents receiving MA in the medically needy only category will have to work 100 hours per month to maintain their health coverage. Currently, the work requirement applies only to non-custodial parents.

## **Early Childhood**

The Governor proposed cutting child care for working families by almost \$9 million. The Legislature cut this an additional \$4 million in the final budget for a total cut of \$12.9 million. Child care assistance is reduced by \$7.7 million. With cuts in federal funds, the total reduction to child care programs is \$41.8 million.

Funding for domestic violence services is increased by \$305,000, or 2%. Rape crisis and breast cancer screening services are funded at the same level as 2011-12. Legal services are cut by 10%.

## **Victory on Intellectual Disabilities Funding**

After five months of hard work by advocates, the Legislature added an additional \$48.8 million to the Intellectual Disabilities Waiver program. This includes \$12.2 million to fund services for 700 graduates of special education programs on the waiting list and 431 individuals with older caregivers on the emergency waiting list. Funding is also available to enable 100 individuals to move from state centers to community-based programs.

## **Adult Protective Services**

The final budget includes the Governor's proposal to allocate \$1.7 million to begin implementation of the Adult Protective Services Act passed in 2011.

## **Physical Disabilities**

Several waiver programs, including the Independence, OBRA and CommCare waivers, received additional funding in the budget, while the Attendant Care program is reduced by \$3.8 million.

## **Insurance**

### **Children's Health Insurance Program**

Funding for the Children's Health Insurance Program (CHIP), the main General Fund expenditure of the Department of Insurance, increased by \$4.2 million, or 4.4%, to \$101.6 million. That was partially offset by reductions to CHIP administration and general government operations for Insurance. Overall, the department saw an increase of \$2.5 million, or 2%, bringing total funding to \$123.2 million.

### **Health Insurance Exchanges**

The final budget appropriates \$30 million for the Level One Exchange Implementation grant.

## Public Health

Funding for the Department of Health declined by \$3.9 million, or 2%, from 2011-12 to \$189.9 million in the new budget. The department has sustained a 6% cut since 2010-11.

<b>Health</b> (in \$ millions)			
	<b>2010-11</b>	<b>2012-13</b>	<b>% Change</b>
Health	\$202.5	\$190	-6%

The Department of Health budget includes an increase of \$2.5 million for biotechnology research as well as a \$1.3 million cut to local health departments and a \$1 million cut to school district health services. Another \$1 million provided last year to fund the transitioning of drug and alcohol programs to a new department was eliminated.

### Tobacco Settlement Fund

The Governor had proposed redirecting Tobacco Settlement Funds for health research to offset some General Fund cuts, but the Legislature did not follow this plan.

## Public Safety

The 2012-13 General Fund budget for public safety services – including the Department of Corrections, the Pennsylvania State Police, the Board of Probation and Parole, and the Emergency Management Agency (PEMA) – totals \$2.2 billion. This represents a 4% increase in funding from 2010-11 at a time when many other areas of the budget were cut. The final budget is essentially unchanged from the spending levels proposed by Governor Corbett in February.

<b>Public Safety: Department of Corrections, Pennsylvania State Police, Board of Probation and Parole, and Emergency Management Agency</b> (in \$ millions)			
	<b>2010-11</b>	<b>2012-13</b>	<b>% Change</b>
Public Safety	\$2,147	\$2,233	+4%

The Department of Corrections makes up the lion’s share of this funding, which was level-funded at \$1.9 billion – the first time prison funding has not increased in many years. While overall spending is the same as in 2011-12, the Governor proposed shifting \$20 million from inmate health care to general prison operating costs. This change was enacted in the budget.

Since the “get tough on crime” changes enacted during the Ridge administration, the Department of Corrections has seen its budget almost double. However, from 2010-11 to 2012-13, this rate of growth has slowed to 2%.

Prison reforms may be able to help reduce inmate populations and costs in future budgets. The state prison system currently houses approximately 51,600 prisoners in 27 state-operated facilities and other institutions.

At the Board of Probation and Parole, there is a total funding increase of 5% over 2011-12 for general operations and for the Sexual Predators Assessment Board, while funding for the improvement of adult probation programs is cut by \$850,000. Final funding for 2012-13 was the same as proposed by Governor Corbett.

PEMA’s budget increased by \$9 million from the Governor’s February proposal, due to increased funding for hazard mitigation efforts. This funding was added in the final budget negotiations. Compared to 2010-11, funding for PEMA increased \$5.8 million, or 18%, largely due to the hazard mitigation efforts.

The State Police received an overall 1% increase in funding, including a \$2 million increase for general operations in General Fund dollars and a \$5 million increase from the Motor License Fund, which provides most of the agency’s funding. The Fiscal Code (SB 1263) requires the increase in general operations funding to be used to fund a new cadet class of at least 100 troopers.

## Environmental Protection

Despite increasing stress on our environment and the additional burden placed on regulatory agencies from the industrial development of natural gas, General Fund spending in this area continues to be cut.

<b>Environmental Protection: Department of Environmental Protection and Department of Conservation and Natural Resources</b> (in \$ millions)			
	<b>2010-11</b>	<b>2012-13</b>	<b>% Change</b>
Environment	\$223	\$178	-20.4%

The General Fund budget for the Department of Conservation and Natural Resources (DCNR) is cut by \$2.6 million, or 5%, from 2011-12 levels, while the Department of Environmental Protection (DEP)’s General Fund budget is cut by \$12 million, or 9%. The funding cuts follow those proposed by the Governor in February and do not include funding restorations approved in the House prior to the final budget’s passage.

DCNR receives just under \$70 million in support from the Oil and Gas Lease Fund to help offset General Fund cuts, but this reliance on drilling royalties could make it more difficult to limit natural gas exploration on state lands.

Every program that receives state General Fund support in DEP is cut in 2012-13, including environmental program management and environmental protection operations. Funding for sewer facility planning and enforcement grants and a small appropriation for the Ohio River Basin Commission are eliminated.

This budget continues a multi-year trend of environmental funding cuts in the General Fund – stretching back to 2008-09. Since 2010-11, General Fund support for DCNR and DEP has been cut by one-fifth. Since 2008-09, these

programs have seen cuts of almost 50%. While there have been increases in environmental funding from other state funds, these have not been able to make up for General Fund cuts – meaning fewer dollars for state parks and forests, decreases in air and water testing, and less ability to protect our environment.

Governor Corbett had proposed transferring \$38.5 million of the \$46.5 million spent in the Keystone Recreation, Park and Conservation Fund to the General Fund, eliminating the fund’s expenditures on forest rehabilitation and recreation and land trust grants, but the final budget did not include this change.

## Community and Economic Development

The Department of Community and Economic Development (DCED) is one of the few state agencies to see an increase in state General Fund dollars from 2011-12 – increasing from \$214 million to \$238 million, or 11%. However, DCED funding has declined substantially over the past few years, decreasing by 19% since 2010-11 and by 61% since 2007-08.

Community and Economic Development (in \$ millions)			
	2010-11	2012-13	% Change
Community and Economic Development	\$294	\$238	-19%

The enacted budget represents an increase of \$26 million from the \$212 million proposed by Governor Corbett. The General Assembly added funds to: General Fund support for loans and grants to distressed communities (\$9.5 million), the business grant and training program Pennsylvania First (\$7 million), General Fund support for the Commonwealth Finance Authority (\$3.5 million), tourism marketing (\$3 million), and a number of other smaller increases.

Keystone Communities, which includes funding for accessible housing and redevelopment assistance, is decreased by \$1.2 million, or 10%, from 2011-12. Administrative funding for the State Tax Equalization Board was absorbed by DCED’s general government operations.

The Governor had proposed creating an off-budget Liberty Financing Authority to provide loans and grants for businesses, but this plan was not included in the final budget.

## Housing

No General Fund dollars are allotted to the Homeowners Emergency Mortgage Assistance Program (HEMAP), but legislation signed by the Governor will direct the state’s share of funds from a national predatory mortgage settlement to it. The bill sets aside \$69 million from that settlement to be used over the next five years to fund HEMAP, housing-related consumer protection programs, and a state legal fund for housing assistance.

Keystone Communities (a 2011-12 budget combination of New Communities, Housing and Redevelopment Assistance, and Accessible Housing programs) is cut by 10% from 2011-12 to \$10.8 million. These programs have been cut by 60% since 2010-11.

Homeless Assistance, in the Department of Public Welfare, sustained a 10% cut and will now be funded at \$18.5 million. This funding has been cut by 18% since 2010-11.

## Labor and Industry

Only about 6% of the Department of Labor and Industry’s funding comes from the General Fund. The department received a 1% increase in General Fund dollars over 2011-12 but funding is down 13.5% since 2010-11.

<b>Labor and Industry</b> (in \$ millions)			
	<b>2010-11</b>	<b>2012-13</b>	<b>% Change</b>
Labor and Industry	\$84	\$73	-13.5%

The biggest change in the department’s budget is an additional \$2.5 million for Keystone Works, a new five-year on-the-job training program for unemployed workers.

## Transportation

Most transportation funding comes from the Motor License Fund, which derives revenue from liquid fuel taxes, licenses and fees, and investment income. The budget estimates this fund will generate \$2.4 billion in the new fiscal year, with \$1.5 billion supporting road, bridge and other transportation projects and operations. The state has 39,743 miles of roadway to maintain, and this budget will provide \$810 million to fund highway repairs, down \$80 million, or 9%, from 2011-12. This budget will fund the replacement of 290 structurally deficient bridges, down from 320 in 2011-12 and 442 in 2010-11.

Lawmakers have not yet addressed the broader issue of raising needed additional funding for the state’s roads and bridges. The Governor’s Transportation Funding Commission released a report in August 2011 identifying more than \$2 billion in additional revenue, with the bulk of it coming from the removal of the cap on the Oil Company Franchise Tax. Neither the Governor nor the Legislature has taken action on this plan.

## Agriculture

The Department of Agriculture funds promotional activities for the state’s agricultural industry, research into diseases and pests, and inspections of food establishments, among other things. Overall funding is reduced by 3% to \$129.5 million. Agricultural funding has been reduced by 5% since 2010-11.

<b>Agriculture</b> (in \$ millions)			
	<b>2010-11</b>	<b>2012-13</b>	<b>% Change</b>
Agriculture	\$137	\$130	-5.3%

The Governor’s budget had proposed shifting \$72.3 million in agricultural funding from the General Fund to the Pennsylvania Race Horse Development Fund, but that plan was not adopted by the Legislature.

The final agriculture budget eliminates nearly \$1 million for Pennsylvania fairs and a \$2.6 million transfer to the State Farm Products Show Fund, which was replaced with a \$5 million transfer from the Race Horse Development Fund. The budget restores funding for various agriculture and hardwoods research and promotion programs that the Governor had proposed eliminating.

Funding for the state food purchase program, which pays for federal surplus food for pantries, child care programs and other free food distribution programs, is flat-funded at \$17.3 million, after receiving a cut of \$500,000 in 2011-12. The Farmers Market Nutrition Program, providing eligible mothers and seniors with vouchers to purchase fresh grown produce at farmers markets, saw no change in its \$2.1 million appropriation.

## Legislature

The Governor proposed cutting the total appropriation for the General Assembly by \$11.2 million from 2011-12, but in the final budget all but \$800,000 of that was restored. Total funding came in at \$272 million, which is 6% lower than two years ago. The most notable change was an increase in member salaries — \$300,000 for Senators and \$1.4 million for House members. The General Assembly increased its budget for 2010-11 by \$12 million in the last days of the legislative session, so the 2012-13 budget reverts funding to the 2009-10 levels.

<b>General Assembly</b> (in \$ millions)			
	<b>2010-11</b>	<b>2012-13</b>	<b>% Change</b>
General Assembly	\$288	\$272	-6%

## Executive and Row Offices

Funding for the Executive Offices, the general administrative offices for the administration, is set at \$158 million in 2012-13, \$3.6 million higher than in the Governor’s budget proposal. This is an increase of \$1 million, or 0.7%, from 2011-12, but still \$1.6 million lower than it was in 2010-11.

Notable funding changes from 2011-12 within the Executive Offices include:

- The Office of the Receiver for the City of Harrisburg’s budget is increased from \$1 million to \$2 million;
- IT services are increased by \$1.2 million;
- Funding for the Budget Office is cut by \$976,000;
- Funding for services for victims of juvenile crimes is re-established at \$1.3 million (this line was not funded in 2011-12, nor was it included in the Governor’s proposal).
- Funding for the arts is maintained at 2011-12 levels of \$8.2 million.

The Office of Public Liaison (formerly the African American, Asian, and Latino Affairs Commissions and the Commission for Women) is transferred to the Governor’s Office in 2012-13, and its funding is merged into the office’s general operations appropriation.

Below is a summary of funding for the Governor’s and Executive Offices as well as the offices of the Lieutenant Governor, Attorney General, Auditor General and Treasurer.

Row Offices (in \$ millions)			
	2010-11	2012-13	% Change
Governor's Office	\$6.4	\$6.4	0%
Executive Offices	\$159.4	\$157.8	-1%
Lieutenant Governor	\$1	\$1.3	31%
Attorney General	\$83	\$78.1	-6%
Auditor General	\$46.2	\$42.4	-8%
Treasurer	\$1,022.5	\$1,146.6	12%

## Judiciary

For the second year in a row, representatives of the state’s judicial system convinced state lawmakers to increase their state appropriation after the Governor proposed level funding. Total funding increased by \$8.2 million from 2011-12 to \$308.2 million.

Judiciary (in \$ millions)			
	2010-11	2012-13	% Change
Judiciary	\$277	\$308	+11%

The appellate courts were, for the most part, level funded, while the county-based Courts of Common Pleas saw an increase in funding of \$4.6 million, while the local-level Magisterial District Courts were increased by \$3.3 million. A new appropriation of \$1.1 million will fund court consolidation.