PENNSYLVANIA
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Governor Corbett's Proposed 2013-14 Budget: Modest Program Increases Rely on Uncertain Funding Sources

By Pennsylvania Budget and Policy Center Staff

Overview

Governor Tom Corbett proposed a 2013-14 budget of $28.4 billion — up $400 million, or 1%, from the budget in place when he took office in January 2011. The budget proposes expensive new corporate tax breaks that will continue to shift costs to individuals and local taxpayers, while failing to restore deep cuts to public schools, keep college affordable for middle-class students, or ensure working families can obtain basic health care.

The budget does little to reduce the trend of disinvestment in Pennsylvania schools and communities, while providing modest increases in several areas, notably services for children and for people with disabilities. The program improvements may be hard to retain, as they rely on funding from reductions in pension spending that are by no means certain.

2013-14 General Fund Summary (in $ thousands)

	Actual 2010-11	2012-13 Available (Feb. 2013)	2013-14 Governor's Budget	Change from 2012-13 Available	Percent Change	Change from 2010-11 Actual	Percent Change
Total State	$28,039,791	$27,760,966	$28,439,734	$678,768	2.4%	$399,943	1.4%

On its face, the budget proposal seems like a warm tale: after years of belt-tightening, an improving economy permits modest increases across state government — from education to health care to economic development.

Closer examination of the plan reveals its fundamental problems. While the recovering national economy has triggered a modest increase in tax collections, those tax dollars are not used to support program increases. Instead a sizable share of the budget's increased funding comes from unproven sources. These include higher profits from a privatized lottery for senior services and a new education initiative called "Passport for Learning," which depends on the successful sale of the state liquor store system, a proposal that has not gained legislative approval in two prior attempts. The budget redirects as much as $177 million from the state's required contribution to public employee pensions, relying on savings from reduced benefits for current employees — a proposal that requires legislative support and court approval, both of which will be hard to secure. Without these uncertain revenue sources, the budget plan will likely have to be reworked — and many of the proposed gains will be lost or require new sources of funding.

The proposed budget adds $90 million in funding to the Basic Education subsidy for public schools, an increase of 1.7% over the current year. This increase does little to restore the $840 million cut by Governor Corbett during his first budget, with 85% of those cuts still intact two years later.

The budget maintains cuts to higher education in effect since 2011-12, doing little to prevent college from slipping out of reach for a growing number of Pennsylvanians.

A number of human services see modest increases in the budget. More children are insured, a few waiting lists are reduced, and more resources are devoted to long-term care — all good things. The budget does not include an opt-in to the Medicaid coverage expansion made possible under the Affordable Care Act, which could provide affordable insurance to as many as 700,000 working Pennsylvanians and bring in tens of billions in federal health care dollars to the state. The Governor left some room for a different decision should certain conditions be met.

The budget includes major new business tax breaks, including $250 million in lost revenue from the continued phase out of the capital stock and franchise tax, which will be eliminated in 2014. As late as 2007-08, this tax generated more than $1 billion in revenue for the state. The budget also proposes an increase in the net operating loss allowance for corporations and a new phase-down of the corporate net income tax rate, which would ultimately cost hundreds of millions of dollars of lost revenue each year. All of these benefits for business are proposed without an effort to close existing tax loopholes that allow some businesses to pay less than their fair share.

The budget plan also includes a much-needed increase in investment in transportation infrastructure, funded largely through a change in the oil franchise tax to reflect market prices.

The budget is a clear reflection of Corbett administration priorities. The administration continues to favor tax cuts for businesses at the expense of middle-class families who rely on good schools, affordable college tuition, and health care.

General Fund Revenue

The budget proposal includes a number of tax changes that have a modest impact on 2013-14 revenues but will cost hundreds of millions of dollars a year by the end of the decade.

The major changes in 2013-14 are the repeal of the corporate loans tax (a tax on loans made by individuals to companies) and another increase in the net operating loss cap (to the greater of $4 million or 25% of taxable income) in 2014. Lost revenue from these changes would be offset by a tightening up of rules in the corporate net income, realty transfer and personal income taxes. Additional non-tax revenue is brought into the General Fund with proposed transfers totaling $34.5 million from the Motor License and Race Horse Development funds.

A proposed change to the corporate net income tax would have a long-reaching — and substantial — impact on how the General Fund is financed. The capital stock and franchise tax phase-out will be complete in 2014, a loss of $604 million in the last two years. The budget proposes a similar rate "phase-down" beginning in 2015 for the corporate net income tax (CNIT). Under the plan, the CNIT rate would drop from 9.99% to 6.99% by 2025, a 30% tax cut. These reductions shift more of the responsibility for financing state services from corporations to individuals.

General Fund revenue in 2013-14 is projected to grow by $429 million, or 1.5%, from 2012-13. Much of this growth comes from sales tax ($405 million, or 4.5%) and personal income tax ($293 million, or 2.6%). The projected increase in sales tax revenue is surprising due to the lackluster growth in 2011-12 and 2012-13.

Liquor taxes are projected to increase by 4.8% per year from 2013-14 going forward — higher projected growth than has been seen under the state-operated liquor stores where there is 100% tax compliance. Interestingly, beer taxes are projected to be unaffected by the proposed liquor privatization/alcohol modernization plan.

Corporate taxes are projected to have peaked in 2012-13, dropping $311 million, or 5.9%, in 2013-14. This is largely due to the rate cuts and ultimate elimination of the capital stock and franchise tax in 2014. Added to this are the proposed rate cut of the corporate net income tax in 2015 and stagnant taxes on banks, insurers, and utilities in the coming years.

Education

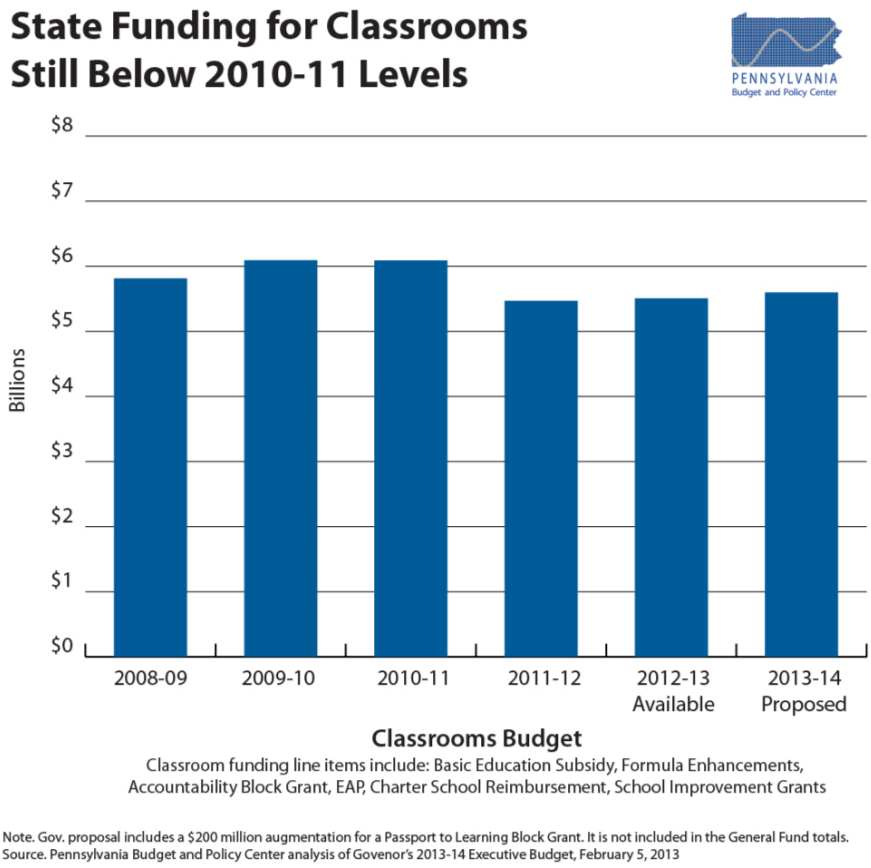
The 2011-12 budget cut $841 million from public schools, almost 10%, and the 2012-13 budget left most of those cuts intact — forcing many school districts to cut programs and resulting in the loss of 20,000 teachers and support staff. The Governor's 2013-14 budget provides a small increase to the basic education subsidy, while increasing total education funding by $338.1 million to $10.0 billion. Funding for K-12 classrooms and higher education would remain well below 2010-11 levels.

Education Funding (in $ millions)			
	2010-11	**2013-14**	**% Change**
Education - Classrooms	$6,310	$5,596	-11.3%
Education - Total PreK-12	$9,909	$10,019	1.1%
Education - Higher Education	$1,933	$1,587	-17.9%

PreK-12 Education

Basic education funding is increased by $90 million, or 1.7%, from current levels to $5.49 billion. This is $282.5 million, or 5%, less than in 2010-11. Overall classroom funding — including the basic education subsidy, formula enhancements, the Accountability Block Grant, Education Assistance Program, charter school reimbursement, and school improvement grants — is $714 million, or 11.3%, less than 2010-11.

Special education is flat-funded for the sixth year at $1.027 billion; however, the actual allocation to school districts will be reduced by 0.5%. The budget proposes to increase the Special Education Contingency Fund, which is available to school districts to help pay for students with high educational costs, by withholding 0.5% of the special education allocations to school districts, for a total reduction of $4.737 million. Intermediate units face a similarly reduced allocation. The cost per district could be substantial: Philadelphia will lose $636,219, and Pittsburgh $137,132.



The budget maintains $100 million in funding for Accountability Block Grants, which were cut from $254.5 million in 2010-11. In the last two years, the Governor proposed eliminating funding altogether for these grants, which allow school districts to fund full-day kindergarten, pre-kindergarten and

innovative research-based programs, but lawmakers partially restored the funding.

The Governor proposed a new program in this budget called the "Passport for Learning Block Grant." It would use an estimated $1 billion of the upfront proceeds from the sale of the state liquor stores to support educational programs. A total of $200 million would be provided to school districts beginning in September 2014 to use for school safety, enriching K-3 education, individualized learning or enhancing access to science, technology, engineering, and mathematics. This proposal depends on passage of a liquor privatization plan that has failed to pass the General Assembly twice and remains in doubt.

Other Education Areas

Funding for public school student transportation is increased by $13.6 million, or 3%, to $555.9 million, while funding for non-public and charter school student transportation rises by just under $1 million, or 1%, to $78.6 million. Funding for the Pennsylvania Assessment would be increased by $3.8 million, or 7%, to $55.96 million.

School Pensions

The budget includes an increase of $223.9 million for school employee retirement funding, a cost paid both by the state and local school districts, from $856 million in 2012-13 to $1.08 billion in 2013-14. The amount is below the estimated $411 million increase required under current law, with savings of about $177 million from proposed pension changes included in the spending plan.

The Governor's pension proposal would reduce the future benefits of current teachers and state workers and enroll new employees in a defined contribution plan, similar to a 401(K) plan. Some funding increases in the budget are conditioned on these pension savings, which may not be enacted by the Legislature or could be challenged in the courts.

Early Childhood Programs

The budget increases funding for Early Intervention for 3-5 year olds by $5 million, or 2%, to $222 million. Funding for Pre-K Counts would rise by $4.5 million, or 5%, to $87.3 million, and the Head Start Supplemental program would see a $1.9 million, or 5%, increase to $39.2 million.

Libraries and Literacy

Adult literacy was flat-funded at $11.7 million, down from $23.4 million prior to the recession. Public libraries are flat-funded at $53.5 million, and the State Library is steady at $1.9 million.

Job Training

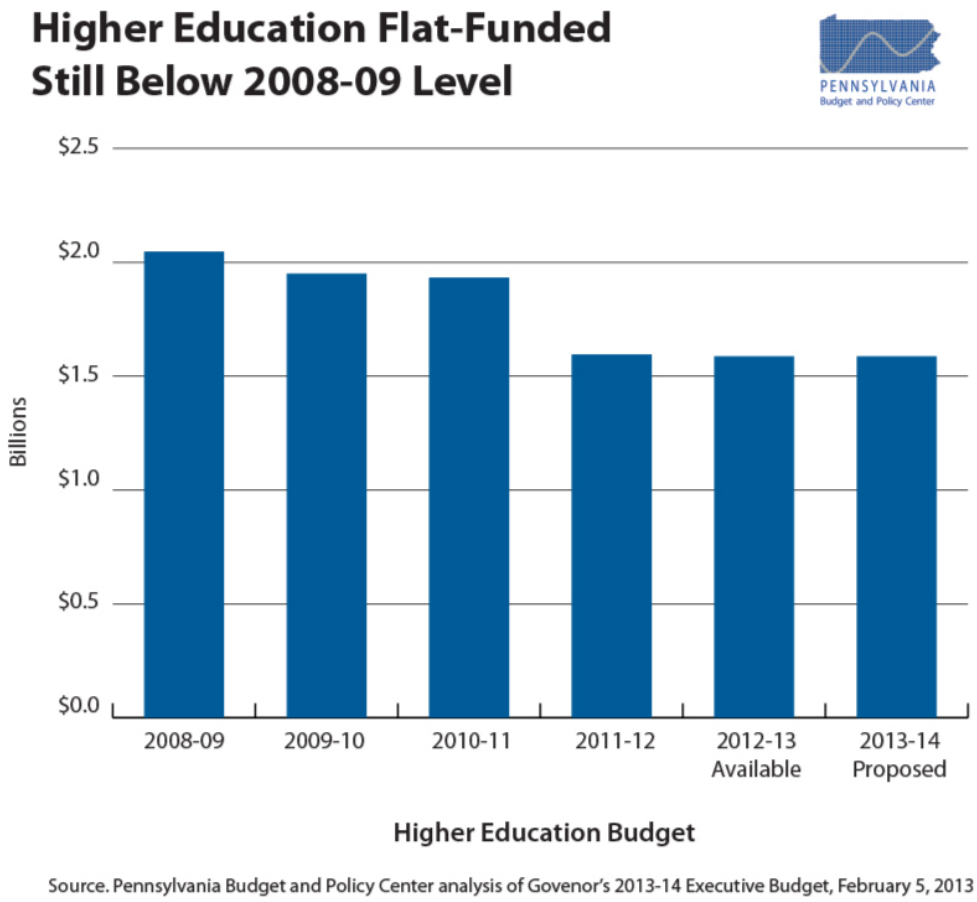
Career and technical education was flat-funded at $62 million, which is an $11.4 million, or 16%, cut from 2010-11 levels.

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. Funding remained at that level in the 2012-13 budget, despite efforts by the Governor to cut further. The 2013-14 budget proposes another year of flat funding.

The State System of Higher Education is funded at $412.8 million; Penn State University at $227.7 million; Temple University at $140 million; the University of Pittsburgh at $134 million; Lincoln University at $11.2 million; and the

Thaddeus Stevens College of Technology at $10.3 million. The Governor secured a promise from the universities to keep tuition increases low in exchange for flat funding.



Source. Pennsylvania Budget and Policy Center analysis of Govenor's 2013-14 Executive Budget, February 5, 2013

The commonwealth's community colleges are also funded at the current year level of $212.2 million, a 10% reduction from 2010-11.

The budget flat-funds the Pennsylvania Higher Education Assistance Agency (PHEAA) at $386.1 million, 12% less than the $441.1 million in funding provided to the agency in 2010-11. Last year, the PHEAA Board of Trustees voted to fund tuition assistance with $75 million in reserve funds, allowing the General Assembly to reduce the agency's General Fund appropriation.

Health Care and Public Welfare

The proposed public welfare budget brings with it little of the controversy of the past two budgets. Instead of significant reductions in provider payments, spectacular estimates of savings from fraud and abuse, or large cuts to county human services programs, the budget includes modest increases for most services and robust support for a few popular initiatives.

The one exception is the continued assault on health care services. After eliminating General Assistance Cash Grants, the proposed budget includes major reductions in state-funded health care for GA-eligible individuals. The proposal fails to build in the Medicaid expansion under the Affordable Care Act — an option that many Governors, including seven Republicans, have deemed too good a deal to pass up.

The budget uses on old Rendell-era budget trick, building in significant supplemental appropriations in the current year, which hide the actual growth over 2012-13 budgeted amounts. In all, the current year budget includes 20 adjustments — from $17 million in reductions to administration, including a $15 million cut to County Assistance Offices, to $50 million in supplemental funding to Home- and Community-based Services and Services to Persons with Disabilities.

Child Care and Development

The budget once again include a reduction in the Child Care Assistance line, which provides child care subsidy to recipients of Temporary Assistance for Needy Families (TANF), from $156.7 million to $152.6 million, a reduction of $4.1 million. Child care for working families (Child Care Services) will increase from $141.4 million to $148.5 million.

The budget includes two initiatives. The budget cuts $7.1 million from the Child Care Information Services (CCIS) agencies. Those funds are reallocated to the child care subsidy for working parents, which will remove 1,400 families from the waiting list. The Rising Stars Initiatives, which provides quality improvement to programs serving subsidized children in the Keystone Stars system, will increase by $3 million.

Early intervention for children ages 0-3 will grow by $1.8 million, or 1%, to $128 million to support current program enrollment.

Community-based Family Centers and the Nurse Family Partnership program are both level-funded.

Mental Health Services

Funding for mental health services made up some ground from a 10% cut enacted in 2012-13. Total funding for mental health services is $689 million, up 4% from the current year. This funding is $28 million less than the 2010-11 appropriation.

Community-based funding remains the same; the funding increase will go toward community-based services for individuals moving out of state mental health institutions. Program increases of $30 million are offset with $1.4 million in savings from the Community/Hospital Integration Projects Program (CHIPPS) and $4.8 million from the closure of the Allentown State Hospital. $4.7 million is allocated for Home- and Community-based Services for 90 people transferring out of state hospitals.

The Behavioral Health Services Initiative (BHSI) is level-funded at $43.1 million, down from $48 million in 2010-11.

Medical Assistance

The federal Medicare Part-D prescription drug program clawback payment for dual enrollees continues to grow, rising $37 million, or 7%, to $550 million. Program enrollment includes a modest increase of 3% to 2,322,820.

The budget reflects the expansion of the Health Choices managed care program to 22 counties, which will be completed by March 2013. As a result of this change, the Outpatient Services line will decline by $194 million, and Inpatient Services will fall by $175 million, while the Capitation program, which funds the managed care providers, will grow by $252 million.

The budget deals a second blow to General Assistance, reducing the Managed Care appropriation by $90 million in spending on GA-related Medical Assistance. This change reflects reduced enrollment in GA-MA from 135,000 to just 90,000 in December 2012.

The budget will require premiums for families of disabled children earning over $100,000, which is budgeted to save $8.3 million. $20 million in savings is budgeted from expanded audits of health care providers.

$117 million is budgeted for managed care rate increases, while $112 million is expected in additional revenue from hospital assessments and managed care gross receipts tax assessments.

The Medical Assistance Transportation Program (MATP) will grow by $3.4 million, which reflects higher costs per trip and increased utilization.

Hospital supplemental programs, which have been zeroed out in several past proposed budgets, are generally level-funded, posting only small reductions in the Critical Access Hospital line. Changes in the federal Medicaid matching rate, known as FMAP, drove a small reduction in Academic Medical Centers and Physician Practice Plans.

The Medical Assistance for Disabled Workers (MAWD) program continues to grow. The 2012-13 budget shifted some MAWD costs to the General Fund; in 2013-14 more funding is shifted back to the Tobacco Settlement Fund. The total program will spend $242 million and serve 31,815 individuals.

Long-term Living

The long-term living program will see several new funding initiatives in 2013-14. The Medical Assistance Long-term Care line will grow to $844 million, which reflects a 2% increase in nursing home rates and an increase of $33 million to replace Lottery Fund dollars. $35 million in reductions related to changes in timing of payments are reflected in this year's appropriation.

The long-term care managed care allocation will increase by $9.1 million. Services for people with disabilities include an increase of $15.8 million to provide Home- and Community-based Services to an additional 1,280 individuals with disabilities. The Attendant Care appropriation will grow by $15 million, including a $4.1 million initiative to provide services to 400 additional individuals.

Income Maintenance

The 2012-13 budget cut the General Assistance program, reducing the cash grant line from $220 million to $61 million to reflect the loss of 71,000 individuals from this critical safety net program. Cash grants are level-funded for 2013-14.

TANF enrollment will continue to decline, dropping to 180,000 with 22,000 enrolled in employment and training programs. State Supplemental Payment (SSP) grants will receive a modest increase of $44 million to reflect growing enrollment. County Assistance Offices are level-funded, with a midyear reduction in 2012-13 offset by an increase in 2013-14.

Intellectual Disabilities

Much of the funding for people with intellectual disabilities was restored in 2012-13, and this budget includes new dollars to continue to replace lost services.

Funding for State Centers for People with Intellectual Disabilities is restored to 2008-09 levels after cuts in 2009-10 and 2010-11. Total funding is proposed at $119 million, up $9.1 million from 2012-13. Intermediate care facilities will receive an increase of $6.6 million to $149.6 million.

The Community Base Program sustained a very small cut and is funded at $151 million, which is $15 million short of its 2011-12 funding.

The ID Community Waiver Program will grow by more than $100 million to just over $1 billion. The funding reflects $39 million in utilization costs and a new initiative to provide Home- and Community-based Services to 1,080 individuals, including 380 on the waiting list and 700 aging out of special education. Funds will also cover services for 100 individuals leaving institutions.

Funding for autism services will increase by $2.2 million to $15.1 million, a 17% increase. The proposal includes an initiative to provide Home- and Community-based Services to 118 additional individuals with autism spectrum disorders.

Human Services Programs

The major county human services, which sustained cuts of 10% in 2012-13 and are part of a pilot block grant program this year, are level-funded in the proposed budget. Other human service line items made up some ground after years of cuts.

Child protective services funded through the County Child Welfare line will grow by $23.3 million to $1.1 billion, reflecting increases in county needs-based budgets.

Rape Crisis and Domestic Violence Prevention services each received a 5% increase, to $7.7 million and $13.8 million, respectively. Breast Cancer Screenings and Legal Services are flat-funded at $1.6 million and $2.5 million, respectively.

Homeless Assistance and the Human Services Development Fund, two programs that are part of the pilot human services block grant and sustained cuts in 2012-13, are level-funded at $13.5 and $18.5 million, respectively.

Juvenile Justice Programs

The budget proposed to use savings from the closure of the New Castle youth development center to fund juvenile justice initiatives. This includes $4 million for the Pennsylvania Commission on Crime and Delinquency (PCCD) and a $1 million employment and training program for youth returning to the community.

Children's Health Insurance Program

The budget proposed a $13.5 million increase for the Children's Health Insurance Program (CHIP) to enroll an additional 9,330 children in the program, adjust for a reduction in federal matching funds, and continue the existing program. CHIP administration gets a $3.8 million increase. Enrollment in CHIP is expected to rise to 200,000, well above the 190,300 children enrolled as of December 2012, but only 3,715 above the peak enrollment in 2009-10. The total appropriation for CHIP is $122.6 million in the Governor's budget, which accounts for a plan to shift $17.9 million of CHIP-related general government operations out of the General Fund and into a new special fund paid for with fees and fines from regulatory activities.

Public Safety and Corrections

After a year of level funding, the Department of Corrections budget will grow to $1.93 billion, up $60.6 million, or 3.2%. Since 2010-11, prison funding has increased by a total of $91.6 million, or 9%. The bulk of this increase is due to the rising cost of incarceration, which is projected to increase from $35,400 per inmate to $37,300 in 2013-14. Adding to this cost is the phasing out of two older facilities, and a transition to a new, more efficient institution in Benner Township, which will open in 2013. The Corbett administration anticipates Pennsylvania's inmate population will drop by 1,200 over the next five years, which should help limit future cost increases.

The State Police are funded jointly through the Motor License Fund and the General Fund. The budget will increase the allocation in both: by 5.9% in the Motor License Fund to $619 million, and by 5.1% in the General Fund to $203.5 million. The State Police budget includes $14.9 million to fund the training of 290 new state troopers, as well as $6 million to free up existing troopers through the training of 90 civilian police communication operators. In 2013-14, the administration seeks to end its forensic laboratory support, reducing costs by $1.5 million.

The Board of Probation and Parole will receive an increase of $11 million, or 8.4%. This increase in funding reflects the growing number of offenders returning to the community, and the subsequent cost of their reintegration within society. Since 2010-11, probation funding has increased 20.6%.

The Pennsylvania Emergency Management Agency is funded at $18 million in the budget, a significant decrease ($45.6 million, or 72%) from 2012-13. The previous year's budget saw increased funding levels as a result of a string of costly natural disaster relief efforts. The 2013-14 appropriation provides for continued funding for Hurricane Sandy and 2011 storm disaster relief, as well as $3 million for the Hazard Mitigation program to reduce the likelihood of damage from future flooding events.

Environmental Protection

Though the recent expansion in the natural gas industry has increased the burden on Pennsylvania's regulatory agencies, General Fund spending on environmental protection was flat-funded this year, locking in the deep cuts of the last several years.

Department of Environmental Protection | Department of Conservation and Natural Resources (in $ millions)				
	Actual 2010-11	**2012-13 Available**	**2013-14 Governor Budget**	**% Change from 2012-13**
Environment	$223	$178	$178	0%

Environmental protection funding has seen a series of cuts over the last several years; since the 2010-11 fiscal year, General Fund support has been reduced by one-fifth. While there have been increases in environmental funding from other state funds, these have not been able to make up for the General Fund cuts — meaning fewer dollars for state parks and forests, decreases in air and water testing, and less ability to protect our environment.

There were small increases in some areas. Environmental program management was increased by 6%, and the environmental protection operations line went up by 2%. The Keystone Recreation, Parks, and Conservation Fund was increased by $1.5 million, close to a 3% increase.

These small increases were made possible in part by the elimination of the state contribution to the Conservation District Fund. The state contribution, which was $2.856 million last year, was replaced with revenue from the natural gas drilling impact fee.

In 2012, the state set up the "Marcellus Legacy Fund" to collect and distribute impact fees paid by natural gas drillers. In 2012-13, fees generated $82.5 million, and this budget estimates a slight uptick to $82.8 million. This is a fraction of the revenue that could have been generated by a natural gas drilling tax in line with those in other gas-producing states. Funds are slated to be used for Environmental Protection ($47 million) and the Industrial Sites Cleanup Fund ($2 million).

Environmental programs will also be funded by revenue from the Oil and Gas Lease Fund, which will disburse $50 million to Conservation and Natural Resources, $15 million to State Parks Operations, $12 million to State Forests Operations, and $20 million to the Marcellus Shale Legacy Fund.

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 in the Governor's budget is reduced by $11.7 million, or 9%, to $117.9 million.

The budget proposes shifting $5.3 million in General Fund dollars for the Pennsylvania Veterinary Lab program and $4.3 million for the Animal Health Commission to the Pennsylvania Race Horse Development Fund. It also eliminates more than $1 million for the Conservation District Fund, to be filled in with revenue from the natural gas impact fee. There are a number of small cuts to other agricultural programs, including agricultural research, promotion, education and exports, hardwoods research and promotion, and food marketing and research.

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. 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.

Transportation

The budget proposes significant changes to state funding for transportation. Funding for construction and upkeep of the state's roads and bridges are increased over the next several years by lifting the artificial price cap on the oil franchise tax. Oil franchise tax receipts are projected to increase $206 million in 2013-14 due to the change. The additional funding helps increase total state funding for highways and bridges by $270 million, or 9%, to $3.3 billion in 2013-14.

Over the next several years, public transit systems could see substantial increases in state assistance — if they can provide local matching funds, which are slated to increase from the current 3.3% of costs to 20%.

The budget also reorganizes funding for rail, aviation, ports, and other types of intermodal transportation from the General Fund to a new fund financed by proceeds from the increased oil franchise tax and subsidies from the Turnpike Commission.

Community and Economic Development

After years of deep funding cuts, community and economic development programs see a $16 million, or 7%, increase in the proposed budget from the current year. Business development programs such as World Trade PA, Marketing to Attract Business, Pennsylvania First, and the Commonwealth Finance Authority see funding increases totaling $23.9 million from 2012-13. Conversely, many community development programs are level-funded, at best, and General Fund aid for fiscally distressed communities is cut by $5 million.

The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget and related policy matters, with attention to the impact of current or proposed policies on working families.