



Compromise Budget Proposal Much Like Senate Plan An Analysis of HB 1943

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With two months passing since the beginning of the fiscal year and little progress seen in finding a solution to the state’s budget impasse, many observers are pleading with Pennsylvania lawmakers to come to an agreement on the 2009-10 Budget. A new plan, House Bill 1943, emerged in late August as a “compromise” plan to end the stalemate. However, a deeper look at the plan finds that it isn’t a compromise bill but is largely a rehash of the Senate’s “cuts only” plan, Senate Bill 850. In fact, HB 1943 would appropriate \$24.7 billion in 2009-10, an increase of only \$101million, or 0.4% from SB 850.¹ A true compromise plan would balance revenue increases with program cuts to protect critical investments.

Revenue

HB 1943 includes few recurring revenue sources. The bill relies upon more than \$2 billion in one-time revenues and shifts from other funds. This includes \$400 million from the surplus in the state’s MCARE fund, \$350 million (roughly half) of the Rainy Day Fund, and \$150 million from the Tobacco Endowment Fund. The plan freezes the Capital Stock and Franchise Tax rate cuts at the 2009 level of 1.89 mills, yielding \$75 million. The proposal also includes a proposal to lease 130,000 additional acres of state forestland to natural gas drillers, rather than enacting a severance tax as proposed by the Governor. The lease is estimated to generate \$210 million, but under current market conditions, this is revenue estimate seems high. Proponents claim that \$620 million is generated through “other transfers and non-tax-increase funding,” although these are not identified.²

HB 1943 assumes 0% growth in the existing tax base from 200-09. A look at tax collections following previous recessions show that they often continue to fall, up to two years after the recession ends. With unemployment likely to rise until late 2010, the belief in rebounding tax revenue may be overly optimistic – making the need to find recurring revenues even greater.

Expenditures

The funding departments receive under HB 1943 is generally higher than in SB 850 and significantly lower than levels proposed in HB 1416, the budget plan approved by the House of Representatives.

	House Plan (HB 1416)	Senate Plan (SB 850)	HB 1943
State Funds	\$26.3 billion	\$24.6 billion	\$24.7 billion
Federal Stimulus Funds	\$2.7 billion	\$2.7 billion	\$2.7 billion
Total Spending	\$29.0 billion	\$27.3 billion	\$27.4 billion

A listing of funding by department can be found in Appendix 1 at the end of this document.

¹ These figures represent state appropriations included in HB 1943 and SB 850. These figures do not include federal stimulus funds (ARRA).

² <http://pahousegop.com/?sectionid=220§iontree=7,64,220>

Education

HB 1943 calls for spending \$9.02 billion in state funds for local schools, libraries, and community colleges.³ This falls much closer to funding levels proposed by SB 850 (\$8.96 billion) than to HB 1416 (\$9.77 billion). Like SB 850, HB 1943 uses \$729 million in flexible federal fiscal stimulus funds (Fiscal Stabilization) to decrease state funds used in the Basic Education subsidy. While SB 850 froze the total Basic Education subsidy at the 2008-09 level, HB 1943 increases the subsidy by \$150 million. If enacted, this level of funding would represent a stalling of progress in meeting the state's obligation to adequately fund basic education identified in the Legislature's Costing-Out Study. The other plan on the table, HB 1416, uses fewer federal Fiscal Stabilization dollars, but funds an overall increase in the Basic Education subsidy by \$300 million from 2008-09, twice the increase included in HB 1943.

Outside of the Basic Education subsidy, HB 1943 cuts many education programs, often deeper than even SB 850. Funding for Pre-K Counts is cut in half, while PA Assessment funds are cut by a third. State support for public libraries is cut from \$76 million to \$50 million. HB 1943 eliminates state funding for the Scranton School for the Deaf, Dual Enrollment, and School Improvement grants. These cuts will result in less investment in Pre-K programs, a reduced ability to measure school performance, and the elimination of a program that allows advanced high school students to get a leg up by taking college courses.

Public Welfare

Under HB 1943, the Department of Public Welfare (DPW) receives \$8.2 billion in state funding. This is \$247 million, or 3%, less than the House plan and \$137 million, or 2%, more than the Senate plan. HB 1943 funds most Medical Assistance programs at a lower level than the House plan, whether looking at state dollars, or including federal and FMAP funding. Conversely, it provides slightly higher funding levels than the Senate plan.

HB 1943 keeps the Senate plan's funding reductions for county assistance offices and child welfare, child care programs, supplemental grants, and behavioral health services.

Aging and Long-Term Living

Like SB 850, HB 1943 rejects the governor's proposal to create a new Department of Aging and Long-Term Living, keeping the funding within the Department of Public Welfare. HB 1943 reduces state Medical Assistance funding for long-term care substantially from both the House and Senate-approved budget plans – moving the spending off-budget to the state's Tobacco Settlement Account. Funding for Attendant Care, however, is increased (using a combination of increased state funding and federal stimulus) over 2008-09 levels and both the House and Senate plans.

Community and Economic Development

HB 1943 allocates \$204 million in total state spending to the Department of Community and Economic Development (DCED). This falls much closer to the Senate plan (SB 850) (\$193 million) than to the House-approved plan, HB 1416 (\$343 million). HB 1943 adds back funding for New Communities, World Trade PA, and Minority Business Development programs, all which were eliminated under SB 850. However, the funding levels proposed in HB 1943 are below those in the House plan. One program, Industrial Resource Centers, receives more funding from HB 1943 than in either the Senate or House plans.

³ This does not include funding for the State System of Higher Education or state-related universities (Penn State, Pitt, Temple, and Lincoln).

Natural Resources and Environmental Protection

For the Departments of Conservation and Natural Resources (DCNR) and Environmental Protection (DEP), HB 1943 offers funding levels in between the House and Senate plans. This is the case for most major programs in the two departments, including state parks and forests which receive \$74 million under HB 1943. This is \$9 million lower than the House plan and \$6 million higher than the Senate plan. Funding for storm water plans and sewerage facility grants, which were eliminated in the Senate plan, is largely restored in HB 1943. The \$15 million House proposal for a Consumer Energy Program is eliminated in HB 1943, as was done in the Senate plan.

Corrections

HB 1943 proposes spending less for Corrections (\$1.59 billion), than either the Senate plan (\$1.60 billion) or the House proposal (\$1.63 billion). HB 1943 makes additional cuts to inmate training and education, a save now - pay later reduction as more than 90% of inmates will someday be back in our communities.⁴

Agriculture

Even though state dollars for the Department of Agriculture are cut by \$17.5 million from 2008-09, HB 1943 adds back funding to a number of small programs eliminated under SB 850, including hardwoods and agricultural research, subsidies to PA fairs, and crop insurance. In total, HB 1943 provides \$5.4 million more in funding than the Senate plan and \$3.5 million less state funding than the House plan.

Executive Offices

Compared to the House plan, HB 1943 reduces funding for the Executive Offices, Budget Office, and other core administrative functions, providing funding similar to the Senate plan. Funding for several programs eliminated in the Senate plan, including Weed and Seed and Victims of Juvenile Crime, are largely restored under HB 1943. State grants to the arts, which were also eliminated under the Senate plan, receive a \$5 million appropriation under HB 1943. This is significantly less than \$15.2 million of funding in 2008-09 and \$14 million proposed in the House plan. Like the Senate plan, HB 1943 eliminates funding for the commissions on Latino, African-American, and Asian American affairs.

Other elected branches

HB 1943 reduces funding for the Judiciary, Legislature, Attorney General, Auditor General, and Treasury as compared to either the House or Senate plans. While the Lieutenant Governor's Office receives a funding cut from 2008-09 in all three plans, HB 1943 provides \$384,000, or 44%, more funding than the House plan.

Conclusion

The impact of the passage of HB 1943 would quite similar to the passage of SB 850. Even though the plan restores some funding to a number of smaller programs, it cuts funding for many significant services including early education programs and mental health. It also ends progress towards adequately funding basic education in the state. The plan is hampered by its reliance on one-time revenues, which may not generate enough revenue to offset falling tax collections, and creates the likelihood of a significant shortfall next year. A better solution would be to adopt reasonable, recurring revenues to help prevent further service cuts.

⁴ In 2008-09, \$48 million was provided for inmate training and education. The House plan proposes \$47 million for 2009-10. The Senate plan reduces this to \$40 million. HB 1943 goes further, cutting the program to \$36 million.