

2012-13 Budget Analysis: Taking Pa. in the Wrong Direction

By Pennsylvania Budget and Policy Center Staff

Overview

Governor Tom Corbett proposed a 2012-13 budget of \$27,138,970,000 — down from the \$27,261,435,000 budget enacted in June 2011 and up slightly from the \$26,938,886,000 in revised 2011-12 spending announced in the January budgetary freeze.

General Fund Summary (in \$ thousands)

	Actual 2010-11	2011-12 Available (Feb. 2012)	2012-13 Governor's Budget	Change from 2011-12 Available	Percent Change	Change from 2010-11 Actual	Percent Change
Total State	\$28,210,528	\$27,261,435	\$27,138,970	(\$122,465)	-0.4%	(\$1,071,558)	-3.8%

The budget continues two Corbett administration themes: higher education is hit hard, with cuts of 20% to state schools and 30% to state-related universities.

And once again, a major benefit program for low-income Pennsylvanians is wiped out. The General Assistance cash grant program, which provides a small stipend to 67,000 childless adults who are sick or disabled, victims of domestic violence, and very low-income children, is eliminated. Health care for a large share of GA-eligible individuals will be eliminated.

Public schools, which lost \$840 million in the 2011-12 fiscal year, are treated with benign neglect. Basic education funding is down by \$78 million from the current year and the basic education formula is replaced with a new program, the Student Achievement Education Block Grant, which consolidates basic education, transportation and school district Social Security allocations into one line item. Special education is level-funded for the fourth year.

In the Department of Public Welfare, several human service programs administered by counties will be combined into a new, larger Human Services Development Fund. Many other line items are reduced, and DPW proposes savings of \$629 million: \$319 million in reductions to General Assistance, \$168 million in cuts to Human Service Development Fund programs and \$59 million in provider reimbursements.

The third of the big three expenditures — the Department of Corrections — is level-funded. For the current year, Governor Corbett replaced \$172 million in expiring American Recovery and Reinvestment

Act (ARRA) funds for a total budget of \$1.86 billion. The proposed 2012-13 budget has no increase largely due to a reduction in expenditures on inmate health care.

The proposed budget obscures as much as it informs. The mid-year budget reductions announced just one month ago are not reflected, at all, in the proposed budget. It is unclear whether agencies will see a restoration of \$157 million in budgetary reserves, or if this is merely a budget gimmick. The proposed budget makes no mention of the Accountability Block Grant Program, which was rescued with \$100 million from Legislative Leadership Accounts last year. Presumably this program, a major funder of full-day kindergarten and pre-k programs, is eliminated.

On the revenue side, the proposed budget assumes the continued phase-out of the Capital Stock and Franchise Tax in 2013, which will drain close to \$250 million in revenue. The budget, however, proposes no other tax cuts and even takes a small step toward adding new revenue: the sales tax vendor discount for retailers who remit this tax is capped, which will generate \$41 million. Another \$100 million is anticipated from greater tax enforcement activities, but where those funds come from, or go, is unclear.

The budget presumes a \$700 million year-end revenue deficit, but with spending reductions and the \$1 billion carried over from 2010-11, a \$93 million year-end surplus. Should revenue collections improve, additional funds would be available for the year-end carryover.

The budget is a clear reflection of Corbett administration priorities. Help for the most vulnerable is reduced or eliminated. The Governor continues to turn his back on middle-class families who rely on good schools and affordable college tuition. The proposed budget demands greater accountability for every dollar in spending, but lets businesses off the hook based on claims that they will create jobs in exchange for tax cut that now total more than \$1 billion.

General Fund Revenue

No new tax changes are proposed in the Governor's budget, but the proposed plan includes \$242 million of new revenue sources for the General Fund. The initiatives range from limiting the discount that retailers receive for filing timely sales tax returns to enhanced revenue collection efforts and enforcement.

General Fund revenue is projected to grow by \$1.3 billion, or 4.7%, from 2011-12. Much of this growth comes from personal income tax (\$512 million, or 4.7%) and sales tax (\$347 million, or 4.0%). The growth rate for sales tax is higher than normal, likely in anticipation of increased collections from Internet sales taxes (slated to begin in September 2012).

Corporate taxes are projected to increase \$323 million, or 7.2%, in 2012-13, with much of the growth due to a surge in the gross receipts tax. Collections of corporate net income taxes are expected to bounce back in 2012-13 after falling \$340 million short of expectations in 2011-12, but the revenue gains are basically cancelled out by the expected revenue loss from the continued phase-out of the capital stock and franchise tax – which sees another rate reduction from 1.89 mills to 0.89 mills in 2013.

Non-tax revenues are expected to increase by \$31 million, or 6.4%. This is primarily due to an increase in transfers from special funds (PHEAA and the Keystone Recreation, Park and Conservation Fund).

Education

The Governor's proposed budget for education lets stand \$840 million in cuts to commonwealth school districts in 2010-11 that had a disproportionate impact on poorer school districts and have left at least a dozen in extreme financial distress. It proposes another round of deep cuts to higher education institutions, as well as cuts to student aid.

With this budget, every gain in school funding enacted by the General Assembly over the past decade will be wiped out over the course of just two years. Research-based initiatives that promote student success and adequate education funding levels proposed in the Costing-Out study have all been eliminated.

As with the Department of Public Welfare, the Education budget trades adequate funding for local flexibility. Several education line items will be combined into a new block grant, but overall funding allocated to districts is reduced by \$78 million, or 1%.

Governor Corbett took great pains during his budget speech to address what he called "the urban legend" that he cut education spending, instead pointing the finger at temporary federal funds. He failed to mention that in his first budget, the Governor elected to replaced hundreds of millions of dollars of temporary federal funds in the Department of Corrections, while declining to replace hundreds of millions in the education budget.

Pre-kindergarten-12 Education

The proposed budget creates the Student Achievement Education Block Grant, combining funding for the basic education grant to school districts, transportation for public and non-public students, and employee Social Security costs. Basic education and transportation are level-funded, and the Social Security payment is slated to increase by \$21.8 million. All told, the Block Grant is funded at \$6.52 billion. However, the budget makes no mention of the Accountability Block Grant Program, which was rescued with \$100 million from Legislative Leadership Accounts last year and is used to fund full-day kindergarten and class size reduction. Counting the loss of that \$100 million, the Student Achievement Education Block Grant reflects a 1% reduction from current year funding levels.

Other line items distributed to school districts, including reimbursement for charter school costs, tutoring grants and funds for school improvement, totaling more than \$280 million in 2010-11, were eliminated.

Reflecting the revisions of the 2010 pension reform bill, the school employee retirement line is projected to increase by \$315 million to \$915 million next year.

Neither the proposed budget, nor the Governor in his speech, addressed the plight of the Chester-Upland School District or more than a dozen other districts that are in severe distress as a result of prior year cuts.

The special education appropriation is funded at \$1,026 billion for the fourth straight year. Early intervention for preschool-aged children will receive a 4% increase for a total budget of \$206 million in 2012-13.

Early childhood education programs sustain additional cuts in the budget. Both Pre-K Counts and Head Start Supplemental programs are each slated for a 5% reduction.

Career and technical colleges received a 1% increase in the proposed budget after several years of flat funding. That budget will total \$74.5 million in 2012-13.

Most other education line items are cut by 5%. The exception is the Teacher Professional Development Line, which is cut by 10% in 2012-13, for a two-year reduction of 70%.

Libraries and Literacy

Libraries and literacy programs sustained additional cuts. Adult Literacy is funded at \$11.6 million, a 5% reduction this year and a 22% cut over two years. The public library subsidy will receive a \$2.7 million, or 5%, cut.

Higher Education

For the second year, the Governor has proposed deep cuts to higher education institutions. The State System of Higher Education appropriation, supporting 17 state universities, is reduced by 20% to \$330 million. The two-year reduction would amount to a cut of 34%.

The appropriation for Penn State will be cut by 28% this year, totaling a two-year reduction of 51%.

The University of Pittsburgh and Temple University are slated to receive a 30% cut this year, with the two-year cut totaling 44% and 43%, respectively. Lincoln University is level-funded.

The budget for community colleges would receive an \$8.8 million reduction to reflect the transfer of community college Social Security costs to the education block grant. The Community College Capital Grant Fund is unchanged from 2011-12.

The Pennsylvania Higher Education Assistance Agency (PHEAA) offers financial assistance to students in the form of grants, scholarships and work-study awards. The agency is funded at \$395.7 million, a cut of \$27.2 million, or 6.4%. The bulk of the cuts will be made to grants to students and grants to post-secondary institutions.

Health Care and Public Welfare

Child Care and Development

Child care for working families is reduced from \$154.3 million to \$145.4 million. Child care for Temporary Assistance to Needy Families (TANF) recipients declines from \$164.5 million to \$156.7 million. These changes reflect the annualization of program savings from 2011-12, and reductions to reimbursement rates for unregulated relative and neighbor care.

Community-based Family Centers are level-funded at \$3.3 million.

Medical Assistance

Fully \$47 million is increased in appropriations for clawback payments to the federal government for the Medicare Part D prescription drug benefit for senior.

Outpatient and Inpatient appropriations are down, while Capitation, which reflects funding for managed care, is up. This reflects the expansion of managed care to additional counties.

The biggest cut is in health care for General Assistance recipients. It includes \$28 million in inpatient and outpatient lines and \$142 million reflecting reduced enrollment in managed care for GA eligible individuals.

The MA budget includes a number of additional cuts. Individuals with high health costs will be subject to review and case management to reduce costs. Individuals who are enrolled in MA at hospitals will be signed up for fee for service rather than managed care, for a savings of \$22.4 million.

In a reversal of last year, the MA Transportation Program is slated for an increase of \$5.6 million.

Premiums will increase for individuals receiving health care through Medical Assistance for Workers with Disabilities (MAWD), and enrollment is expected to climb. Hospital supplemental programs, which have been zeroed out in several past proposed budgets received only small reductions for 2012-13.

Long-term Living

Last year's budget rearranged Long-term Care appropriations. For 2012-13, the MA Long Term Care Appropriation is level-funded. Waiver services received a decrease of \$3 million in state funds and \$19 million in federal funds. Long-term Managed Care will increase by \$18 million in state funds and \$9 million in federal funds.

The budget reflects both increased utilization and program reductions. MA Long-term Care will receive \$71 million in additional dollars from the Lottery Fund. The proposed budget also changes the timing of nursing home payments, and anticipates \$46 million in reduced reimbursements through other provider cost containment.

Home and Community-based Services, Services to Persons with Disabilities and Attendant Care are each slated for \$8 million in cuts resulting from review of high cost cases. The Disability Services line is reduced from \$147 to \$141 million, while Attendant Care is reduced from \$95.4 to \$93 million.

Income Maintenance

The largest reduction in state funding is for the Cash Grant line, which is slashed from \$220 million to \$66 million. This reflects the elimination of the General Assistance program. State Supplemental Payment (SSP) grants will receive a modest increase, \$3.4 million, to reflect growing enrollment. County Assistance Offices are level-funded.

Mental Health

A significant portion of the current mental health budget was transferred to the Human Services Development Fund (HSDF) block grant. The Mental Health Services line is reduced from \$717.2 million to \$166.8 million. \$550 million is transferred to HSDF, while \$48 million in the Behavioral Health Services line is eliminated.

Intellectual Disabilities

State Centers for People with Intellectual Disabilities receives an increase of \$3.5 million to \$109.9 million, mostly to continue current operations. Intermediate care facilities are level-funded at \$143 million, with current services offset by reductions to reflect individuals moving into community-based programs.

Most of the funding for the Community-based Program was transferred to HSDF. The program line is reduced from \$166.5 million to \$20.7 million in 2012-13.

The Community Waiver Program will receive an increase of \$16 million, from \$854.9 million to \$871.1 million. The appropriation also includes \$17 million in savings from High Cost Case reviews.

Autism services, which were funded at \$33 million in 2010-11, received cuts in 2011-12 and a further reduction is proposed from \$29.3 million in state and federal funds to \$25 million.

Early intervention for children from birth to three years old is the bright spot in this appropriation. Funding increased by \$13.4 million to \$119.8 million to annualize costs for children added in 2011-12 and to replace ARRA funding.

Human Services Programs

The biggest reshuffling in the Governor's 2012-13 Department of Public Welfare budget is through an expanded Human Services Development Fund (HSDF).

Over the past few years, HSDF, a flexible funding stream used for a wide variety of human services at the county level, has been repeatedly reduced. The new budget combines funding for several other programs into a single Human Services Development Fund Block Grant, although cumulative funding amounts are reduced by \$168.4 million, or 20%.

The total allocation for the block grant is \$673.7 million. The programs affected are Medical Assistance Outpatient, Behavioral Health Services, Mental Health Services, ID Community-based Programs, County Child Welfare, the prior HSDF and Homeless Assistance (see table below).

DPW Programs transferred to Human Services Development Fund block grant	
<i>(in \$ thousands)</i>	
Programs transferred to HSDF block grant:	
Medical Assistance Outpatient	\$(14,727)
Behavioral Health Services	(47,908)
Mental Health Services	(550,469)
ID Community-based Programs	(144,974)
County Child Welfare	(48,533)
HSDF	(14,956)
Homeless Assistance	(20,551)
Total	(\$842,118)
Human Services Development Fund Block Grant Funding	\$673,695
Net Funding Reduction	(\$168,423)
Net Reduction Percent	-20%

Services for women, including Domestic Violence funding, Rape Crisis and Breast Cancer Screenings are all flat-funded. Legal Services is cut by 10% to \$2.5 million.

Environmental Protection and Conservation

The Department of Environmental Protection (DEP) received a \$10.6 million, or 7.8%, cut in General Fund dollars in 2011-12. At \$124.8 million, the department's General Fund support has dropped 43% since 2007-08. State funding for general environmental programs that protect air, water and land is reduced. Environmental program management and environmental protection operations, the department's two largest General Fund programs, received funding cuts, respectively, of 11% and 4.6% from 2011-12.

Funding for the Department of Conservation and Natural Resources (DCNR) is cut by \$2.6 million, or 4.6%, to \$52.7 million. The state parks sustain the largest cut, \$1.4 million. The department's General Fund support has dropped by nearly 55% since 2007-08. These cuts have been partially offset by increased funding from the Oil and Gas Lease Fund. In 2011-12, \$65 million from the Oil and Gas Lease Fund supported conservation and recreation programs.

Corrections and Public Safety

The Department of Corrections is flat-funded at \$1.87 billion after receiving a 10% increase in the 2011-12 budget. The appropriation for costs associated with housing prisoners will increase by \$21.4 million, while inmate medical care is reduced by the same amount. The budget attributes the bulk of the medical care cut to savings from reductions in contracted medical care costs and population. The Corbett administration projects that after reaching a peak of 51,720 in 2011-12, the inmate population will decline to 49,127 by December 2012 due to savings initiatives and anticipated legislative changes.

The State Police, which is primarily funded through the Motor License Fund with other significant funding from the General Fund, sees a less-than-1% increase in funding from both sources. The General Fund appropriation is at \$187 million, while the Motor License Fund portion is at \$569.8 million. The State Police budget would fund the hiring of 115 new state troopers.

The Board of Probation and Parole will receive an increase of \$4.8 million, or 3.8%. The Board expects its total caseload to increase from 34,745 parolees in June 2011 to 40,400 by June 2013. The Pennsylvania Commission on Crime and Delinquency (PCCD), which is funded under the Executive Offices, is flat funded at \$3.2 million.

The Pennsylvania Emergency Management Agency will receive a \$4.4 million, or 17.7%, increase, bringing total General Fund support to \$29.5 million. The increase is for state matching dollars to federally-funded hazard mitigation projects and summer storm disaster relief.

Community and Economic Development

After several years of deep program reductions, the Department of Community and Economic Development (DCED) would see a \$1 million, or less than 1%, cut. General Fund support for DCED has been cut by 35% since 2010-11 and 65% since 2007-08.

This budget maintains the status quo for most economic development programs. Discovered in PA - Developed in PA, Infrastructure and Facilities Improvement grants, Partnerships for Regional Economic Performance, and the General Fund's support for the Ben Franklin Technology Fund and Commonwealth Financing Authority are flat-funded. Pennsylvania First, which combined the Opportunity Grant, Customized Job Training, and Infrastructure Development programs in 2011-12, sees a 10% funding reduction.

The Governor repackages his Liberty Loan concept from 2011-12 as the Liberty Financing Authority, promoted as a one-stop shop for business loans, but no funding mechanism has been provided.

Housing

Funding for the Homeowners Emergency Mortgage Assistance program (HEMAP), which was cut to \$2 million in 2011-12, is eliminated. Keystone Communities (a 2011-12 budget combination of New Communities, Housing and Redevelopment Assistance, and Accessible Housing programs) is cut by 10% from its current funding level. These programs have been cut by 61% since 2010-11. Finally, the Municipal Assistance Program (another combination from 2011-12 – this time merging Shared Municipal Services and Flood Plain Management) receives a 5% cut in the 2012-13 proposal.

Homeless Assistance, in the Department of Public Welfare, would be merged with a number of other county

programs into a revised Human Services Development Fund (HSDF) block grant program. In total, the programs combined in HSDF are cut by \$168 million, or 20%.

Transportation

Most transportation funding comes from the Motor License Fund, which derives revenue from liquid fuel taxes, licenses and fees, and investment income. This fund will provide \$1.8 billion in transportation funding in 2012-13, down \$105.6 million, or 5.4%, from 2011-12. Funding for highways and bridges is \$1.4 billion, down \$113.5 million, or 7.4% (including funding that was eliminated for nonrecurring disaster recovery projects). \$5.75 million for rail freight assistance is also eliminated.

The budget does not address the longer-term transportation funding needs that were the subject of a gubernatorial advisory commission. Governor Corbett said during his budget address that it is critical to address transportation issues, but that it was too large to address in this budget. The Governor said he looked forward to working with lawmakers to address it.

Labor and Industry

Only about 6% of the Department of Labor and Industry's funding comes from the General Fund. The Governor's proposal reduces the General Fund contribution to \$70.5 million, a reduction of \$1.2 million, or 2%. Most programs within Labor and Industry receive a similar reduction.

The Governor proposes a new training program called Keystone Works to provide "incentivized, employer-driven training opportunities to unemployed workers." The new program would be funded at \$2.5 million.

Conversely, other training programs are cut. The New Choices/New Options training program is eliminated in the budget after receiving a significant funding cut in 2011-12. The Industry Partnerships program is funded at \$1.5 million, a 10% cut from 2011-12. The related Training Activities program was eliminated in the 2011-12 budget.

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. The budget proposes shifting \$72.3 million in funding for University of Pennsylvania veterinary activities and infectious disease research, agricultural research and extension services, and Pennsylvania fairs from the General Fund to the Pennsylvania Race Horse Development Fund. Funding for various agriculture and hardwoods research and promotion programs is eliminated. Overall, the department's funding is cut by \$4.5 million.

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 budget. 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.