

PA State Budget: Rendell Budget Proposal 2010-11

February 9, 2010

House Republican Caucus

Overview of Spending

- **Total Spending: \$29.03 Billion**
 - State Dollars: \$26.27 Billion
 - ARRA Stimulus Dollars (Federal Offset): \$2.76 Billion
 - The governor is assuming approximately \$800 Million in new FMAP funds will be approved by the federal government and has built this revenue into his budget proposal. If these funds are not approved, this proposal would be out of balance by approximately \$800 Million.

- **Spending Comparison**
 - FY 2009-10: \$27.74 Billion.
 - Governor Rendell cut \$135 Million from the 2009-10 state budget to account for revenue shortfall.
 - The 2010-11 Rendell budget would increase spending by \$1.29 Billion or 4.6 Percent.

Notable Spending Points

- The budget eliminates all funding for non-preferred appropriations with the exception of the four state-related universities (PSU, Pitt, Temple, Lincoln) and the Penn Veterinary School, all of which will be level funded.

- The governor has modified his cuts to the FY 2009-10 budget. Instead of eliminating funding for some programs as was originally noted in the January 2010, he has opted to reduce those that were originally totally eliminated on the list by 10 Percent. This decreased the amount cut from \$161 Million to \$135 Million. (These cuts are not reflected in the governor's budget as he compares FY 2009-10 to FY 2010-11).
 - Example: The governor had proposed in early January to totally eliminate \$1.9 Million for Science in Motion in FY 2009-10. Now the program will only be cut by 10 percent in the current year.
 - Although, like others, this program was totally eliminated in the FY 2010-11 proposal.

Revenue and Taxes

- This budget increases taxes in FY 2010-11 by \$874 Million and \$1.4 Billion in FY 2011-12. These new taxes are not to be spent in the General Fund and do not support the governor's new spending.
 - The new taxes are to be deposited into a new account called the Stimulus Transition Reserve Fund, which is proposed to help the state manage the upcoming loss in stimulus funds.
 - The new taxes include the following:
 - Sales Tax Changes: This plan would lower the rate to 4 Percent and expand the scope of the sales tax, removing 74 current exemptions. This would generate \$531.5 Million in FY 2010-11.
 - Eliminate the Vendor Sales Tax Discount: This would remove a current discount on businesses that remit sales taxes to the state in a timely manner. This would generate \$73.6 Million in FY 2010-11.

- Smokeless Tobacco and Cigars: Implement a new tax on these items – 30 Percent of the product’s value – to generate \$41.6 Million in FY 2010-11.
 - Severance Tax: Impose a 5 Percent tax on the value of natural gas at the wellhead (plus 4.7 cents per thousand cubic feet of gas severed). This would generate \$160.7 Million in FY 2010-11.
 - Business Tax Package / Combined Reporting: The governor is proposing to move to mandatory unitary combined reporting with a lower CNI rate of 8.99 Percent. This would generate \$66.6 Million in FY 2010-11.
 - Also included in this package would be a move to adopt a single sales factor and remove the current cap on Net Operating Losses.
- The governor’s budget plan is balanced by assuming the following:
 - Approximately \$800 Million in new FMAP funds will be approved by the federal government.
 - \$92.5 Million in revenue will be available through table games.
 - \$180 Million in revenue will be available through leasing more state land for drilling in Marcellus Shale.
 - NOTE: If any of these assumptions fall short of projections or the federal funds are not received, the budget would be out of balance.
- The budget also assumes the state will finish the current fiscal year (2009-10) with a \$525 Million shortfall in the General Fund – this is up from the earlier \$450 Million estimate.

Future Budget Issues

- Based on the governor’s own numbers, even if all projections are met through fiscal year 2011-12, the state would be left with a \$2.44 Billion deficit following FY 2011-12.

Pension Adjustments

- The governor’s budget defers addressing the pension spike by:
 - Limiting the increase in the employer contribution rate to 5.78% from 4.78%.
 - It should be noted that the PSERS board adopted an employer contribution rate of 8.22% in December 2009.
 - By moving to the proposed 5.78% rate, it forces less General Fund dollars to be spent on pension obligations and provides the governor room to spend the funds elsewhere in the budget.
 - The plan would also refinance pension obligation over the next 30 years. This will over the long term, defer expenses and increase long-term costs.

Department Spending Overview: FY 2010-11

(All spending comparisons are based on the difference between the 2010-11 proposal and the 2009-10 enacted budget).

LOCAL EDUCATION

- **Basic Education**: This budget would provide a \$5.23 Billion in state dollars and \$654.7 Million in federal ARRA dollars for a total of \$5.88 Billion to the state’s 500 school districts. This represents a \$354 Million increase over last year – an increase of 7.28 Percent.
- **Special Education**: State funds would remain at the FY 2009-10 appropriated levels of \$1.03 Billion.

- **Accountability Block Grants:** Funding for these grants would be set at \$271.4 Million, which gives schools flexibility to fund areas of need. This would level fund the program at the 2008-09 appropriations mark.
- **Science In Motion:** The budget eliminates all funding for this award-winning program, which provides science education support to rural communities through partnerships with colleges and universities.
- **Services to Non-Public Schools:** More than \$2.9 Million in new funding would be afforded to Services for Non-Public Schools, for a total of \$91.9 Million.
 - An additional \$28.1 Million would be provided for textbooks and other materials – a \$872,000 increase.
- **Pre-K Counts:** Funding for this early-childhood initiative supporting eligible families – family of four making \$66,000 or less – is set at \$85.9 Million. This is \$475,000 cut from the current year’s budget.
- **Head Start Assistance:** This program, which provides early-childhood education support to low-income families (family of four making \$22,000 or less) is being provided with \$38.7 Million in this budget. This is \$784,000 less than the current year’s budget.
- **Public Libraries:** Pennsylvania public libraries would receive \$58.8 Million under this proposal, representing a \$1.2 Million decrease from the current year’s budget.
- **Science: It’s Elementary:** This program, which supports science education initiatives in elementary schools, would receive about \$13.5 Million. This represents a \$136,000 cut from the current year’s budget.

HIGHER EDUCATION

- **Community Colleges:** State dollars for these schools would remain at the FY 2009-10 total of \$235.7 Million. This total includes \$22 Million in ARRA funds.
 - Another \$46.4 Million will be provided for Community Colleges capital funds.
- **State-Related Universities:** The state’s four state-related universities (PSU, PITT, Temple and Lincoln) would receive the following:
 - PSU: \$333.9 Million (Includes \$15.8 Million in ARRA)
 - PITT: \$168 Million (Includes \$7.5 Million in ARRA)
 - Temple: \$172.7 Million (Includes \$7.8 Million in ARRA)
 - Lincoln: \$13.8 Million (Includes \$159,000 in ARRA)
- **Non-State Related Universities and Colleges:** All non-state related schools, which are non preferred appropriations, would not receive any funding in this budget.
 - The veterinary school at the University of Pennsylvania is an exception to this, as it will receive \$30 Million.
 - The University of Pennsylvania would also receive \$500,000 for its Center for Infectious Disease.
- **State System of Higher Education:** The state’s 14 universities would be provided a total of \$503.4 Million. This includes \$38.2 Million in ARRA funds. The total is equal to the current year’s budget.

- **PHEAA:** This budget plan would provide \$455.2 Million for the Pennsylvania Higher Education Assistance Agency, of which, \$403.6 Million would go to the agency's Education Assistance Grants program. Both amounts are equal to the current fiscal year's appropriation.

PUBLIC WELFARE

- **Medical Assistance:** The three main appropriations of DPW's Medical Assistance program (Outpatient, Inpatient and Capitation) would receive about \$3.25 Billion in state dollars through this budget (MA Long-Term Care has been moved to the Office of Aging and Long-Term living in this budget). Federal MA dollars would also be made available through ARRA:
 - Outpatient: \$365.5 Million (\$72.7 Million cut in state dollars from the current year).
 - Plus \$176.6 Million in ARRA funds (\$36.4 Million less than the current year).
 - Inpatient: \$393.6 Million (\$20.1 Million increase in state funds over the current year).
 - Plus \$101.6 Million in ARRA funds (\$330,000 more than the current year).
 - Capitation: \$2.49 Billion in state funds (\$362.4 Million increase over the current year).
 - Plus \$805.8 Million in ARRA funds (\$57.7 Million increase over the current year).
- **Hospitals:** Funding for hospitals in this proposal would break down as follows:
 - Burn Centers: \$5.04 Million (\$103,000 cut from the current year).
 - MA Critical Access Hospitals: \$4.77 Million (\$97,000 cut from the current year).
 - Trauma Centers: \$11.54 Million (Same as current year).
 - Obstetric and Neonatal Services: \$4.91 Million (\$92,000 cut from current year).
 - State dollar reductions exist, but overall total funding is maintained at the current year level.
- **County Child Welfare:** More than \$1.07 Billion would be provided to support abused, at-risk and neglected children. This represents about a \$23.7 Million increase over the current year.
- **Human Services Development Fund:** This appropriation, which helps counties throughout the state fill gaps in their human services delivery system, would be funded at \$25.35 Million. This is a \$4 Million reduction from the current year.
- **Mental Retardation Services:** Appropriations supporting individuals in need of care for mental retardation services would receive nearly \$1.1 Billion in state dollars in this budget. This represents an increase of about a \$19.9 Million over the current year. Another \$263.7 Million would be available through ARRA funds.
 - Intermediate Care Facilities: \$103.6 Million / Plus \$39.9 Million in ARRA Funds
 - Community Mental Retardation (Base Services): \$156.7 Million / Plus \$2.2 Million in ARRA Funds
 - Community Mental Retardation (Waiver Services): \$628.5 Million / Plus \$182.3 Million in ARRA Funds
 - State Centers for the Mentally Retarded: \$78.3 Million / Plus \$33 Million in ARRA Funds
 - Early Intervention: \$118.9 Million. / Plus \$6.2 Million in ARRA Funds
- **Autism Intervention and Services:** About \$42 Million in total funds would be provided to support individuals with Autism. This total includes \$3.4 Million in ARRA funds and \$18.6 Million in state dollars and another \$20.6 Million in federal MA funds.

Aging and Long-Term Living

- This budget – like the FY 2009-10 proposal – calls for the merger of the Office of Long-Term Living and the Department of Aging to create the new Department of Aging and Long-Term Living.
 - This planned merger failed to meet the final cut of the FY 2009-10 budget.
- **MA Long-Term Care:** This appropriation, which reimburses nursing homes and funds home and community based services, would receive \$618.08 Million in state funds under this budget. This is an increase of nearly \$19.4 Million over the current year.
 - Another \$423.3 Million in ARRA funds would also be available, which is \$24.4 Million more than the current year.
 - Note that the budget proposal calls for \$58.4 Million supplemental request for the current year's appropriation.
- **Services to Persons w/ Disabilities:** This budget calls for \$104.4 Million in state funds to support individuals transitioning to home and community-based services. It represents an increase of nearly \$11.3 Million over the current year and would provide services for another 744 individuals.
 - Another \$33.16 Million in ARRA funds would be added to the state total for this item, which is an increase of nearly \$4.18 Million over the current year.
- **Attendant Care:** The budget calls for \$114.35 Million in state funding for this program, which also provides services to persons with disabilities. This total represents an increase of \$4.9 Million over the current year.
 - Another \$20.35 Million would be available through ARRA funds, which is a \$3.64 Million increase over the current year.

PUBLIC SAFETY

- **Corrections:** The Department of Corrections would receive \$1.75 Billion in funding in this budget. This represents a \$136.8 Million increase over 2009-10. This is one of the budget's fastest growing expenditures as a result of the state's rising prison population.
 - Another \$172.9 Million would be provided to the department through ARRA funding. This is the same amount as the current fiscal year.
- **Attorney General:** Total funding for the AG's office would be marked at \$85.7 Million in this budget. This represents an \$865,000 reduction from the current year.
 - All lines under the Office of Attorney General were reduced by 1 percent.
 - **Notable Funding:**
 - Anti-Drug Crime Fighting Programs: Just short of \$38 Million.
 - Child Predator Interception Unit: \$1.43 Million.
 - Government Operations: \$40 Million
- **State Police:** The General Fund would provide the State Police with \$184.7 Million under this proposal. This represents a \$2 Million increase over the current year.
- **Probation and Parole:** A total of \$125.8 Million would be allotted for this department. This represents nearly an \$8.2 Million increase over the current year.

HEALTH PROGRAMS

- **Department of Health:** The department would receive nearly \$232.2 Million in this budget. This represents nearly a \$7 Million reduction from the current year.
 - All Health non-preferred appropriations were eliminated.
 - Health Program Funding:
 - Epilepsy Support Services: \$241,000 (\$155,000 cut from current year).
 - Bio-Technology Research: Eliminated
 - Tourette Syndrome: Eliminated
 - Newborn Screening: \$4.4 Million (\$44,000 cut from current year).
 - School Health Services: \$37.6 Million (\$380,000 cut from current year).
 - Rural Cancer Outreach: Eliminated
 - Regional Cancer Institutes: Eliminated
- **Cancer Care Funding:** Excluding those programs that were eliminated, the budget would provide for \$3.1 Million in other Dept. of Health cancer programs.
- **Assistance to Drug and Alcohol Programs:** This budget maintains funding at \$41.75 Million to support individuals fighting drug and alcohol addiction.

AGRICULTURE

- **Department of Agriculture:** The department would receive \$62.4 Million in this budget, which is \$5.4 Million less than last year.
 - Program funding under the department includes:
 - Crop Insurance: \$1 Million (\$400,000 increase over current year).
 - Agriculture Research: Eliminated
 - Payments to PA Fairs: Eliminated
 - Hardwoods Research and Promotion: Eliminated
 - State Food Purchase: \$18 Million (Same as current year's budget)
 - Animal Health Commission: \$4.9 Million (\$249,000 cut from current year).
 - **NOTE:** Additional funds for Penn State's Agriculture Extension and Agriculture Research programs will also be available through the University's appropriation.

PARKS AND FORESTS

- **Department of Conservation and Natural Resources:** Nearly \$91.4 Million would be provided to DCNR. This would be nearly a \$1 Million cut from the current year.
 - Notable Funding:
 - State Park Operations: \$49.9 Million (\$504,000 cut from the current year)
 - State Forests Operations: nearly \$17 Million (\$171,000 cut from the current year).

ENVIRONMENT

- **Department of Environmental Protection:** This budget would provide \$155.2 Million for DEP. This represents a \$3.8 Million reduction in funding from the current year.
 - Environmental Program Management funds would total \$32.4 Million, which is a \$327,000 cut from the current year.
 - Environmental Protection Operations would total \$84.2 Million, which is an \$851,000 cut from the current year.
 - Black Fly Control would total \$3.7 Million, which is \$1.4 Million less than the current year.

ECONOMIC DEVELOPMENT / LABOR AND INDUSTRY

- **Department of Community and Economic Development:** The department's total funding under this budget would be \$286.4 Million. This represents a \$21.6 Million increase over the current year's budget.
 - The largest increase would be reflected in the Transfer to Commonwealth Financing Authority line, which provides debt service for the governor's economic stimulus program.
 - Transfer to CFA: \$83.3 Million (\$18.25 Million increase over the current year).
 - Other notable DCED funding proposals include:
 - Opportunity Grant Program: \$25 Million (\$6.7 Million increase).
 - Customized Job Training: \$11 Million (\$2 Million increase).
 - New Communities: \$10 Million (\$1.25 Million decrease).
 - Local Development Districts: \$2.97 Million (\$330,000 decrease).
 - Small Business Development Centers: \$3.6 Million (\$400,000 decrease).
- **Department of Labor and Industry:** Total funding for the department would be about \$89 Million in this budget. This represents nearly a \$3.1 Million reduction from the current year.
 - Notable program funding in L&I includes:
 - New Choices / New Options: Eliminated
 - Centers for Independent Living: \$2.1 Million (\$22,000 cut from current year).

MILITARY AND VETERANS AFFAIRS

- **MVA:** Total funding for the Department of Military and Veterans Affairs is \$115.6 Million. This represents a near \$4.4 Million increase from the current year.
 - Notable appropriations include:
 - Veterans Homes: \$85.3 Million (\$3.3 Million increase over current year).
 - Veterans Outreach Services: \$1.7 Million (Same as current year)
 - Civil Air Patrol: Eliminated

DEBT SERVICE

- **General Obligation Debt Service (all funds):** This mandatory budget expenditure is marked at \$1.12 Billion in this budget proposal. This represents an increase of \$100.7 Million over the current year.
 - **General Fund Debt Service**
 - General Obligation Debt: \$1.01 Billion (\$76.7 Million increase).
 - CFA Debt Service: \$83.3 Million (\$18.3 Million increase).
 - Interest on Tax Anticipation Notes: \$10 Million (\$8.8 Million increase).

STATE GOVERNMENT

- **General Assembly:** Both chambers would see reductions in funding under this budget proposal:
 - House: \$183.08 Million (\$1.6 Million Reduction)
 - Senate: \$91.5 Million (\$619,000 Reduction)
- **Governor's Office:** The Office of the Governor would receive \$6.8 Million, which is a \$69,000 cut from the current year.

NOTABLE SPENDING POINTS

- The major spending increases in this budget come in the following areas:
 - Basic Education
 - Public Welfare
 - Corrections
 - Debt Service

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