

Commonwealth of Pennsylvania

PROPOSED FY 2010-11 BUDGET

**Jake Corman, Chairman
SENATE APPROPRIATIONS COMMITTEE
FEBRUARY 9, 2010**

GOVERNOR'S BUDGET FOR 2010-11

2010-11 SUMMARY

EXPENDITURES

The Governor's Budget proposes a General Fund total spend of **\$29.03 billion** for FY 2010-11.

This amount represents an increase of **\$1.155 billion or 4.14%** and includes State funds of \$26.273 billion, \$1.835 billion in ARRA Enhanced FMAP and \$921.4 million in ARRA Fiscal Stabilization Funds.

The Governor's proposed budget assumes:

- Congress will extend the ARRA Enhanced FMAP until September 30, 2011, providing an additional \$848 million in FY 2010-11 and \$498 million in FY 2011-12;
- Federal legislation will be enacted that will allow the Commonwealth to realize additional revenues by collecting federal rebates on drug expenditures of Medicaid managed care organizations, resulting in state fund savings of \$102.5 million; and
- Pennsylvania's Blue Cross/Blue Shield plans will agree to the continuation of the Community Health Reinvestment Agreement resulting in \$183.6 million of CHRA funds to continue the Adult Basic health insurance program in FY 2010-11.

Together, these assumptions total over \$1.134 billion for FY 2010-11 that are dependent on approval by entities outside the state government. The Governor stated that if any one of the above assumption fails to come to fruition, his budget would not be in balance.

The Governor proposes to address the expiration of the Federal fiscal stimulus program by enacting new taxes totaling approximately \$2.3 billion over two fiscal years. Approximately \$874 million would be collected in FY 2010-11 and would be deposited in a newly created Stimulus Transition Reserve Fund. Presumably, all revenues generated would be used to offset non-recurring Federal fiscal stimulus funds beginning in FY 2011-12.

Non-Preferred Appropriations

- The Governor's Budget proposal eliminates funding for the health-related, museum and state-aided educational institution non-preferred appropriations.
- Funding is provided for the four state-related universities and the University of Pennsylvania's School of Veterinary Medicine.

GOVERNOR'S BUDGET FOR 2010-11**REVENUE OUTLOOK & TAX CHANGES****Revenues**

- The Official Revenue Estimate for FY 2009-10 is adjusted downward by \$525 million. The Governor's mid-year budget briefing in December 2009 indicated that the year-end revenue deficit would be \$450 million.
- The Governor's budget assumes 3.2% growth in base General Fund revenues for FY 2010-11. However, General Fund revenues are set to decline from \$28.3 billion in FY 2009-10 to \$27.5 billion in FY 2010-11. The decrease mostly results from the lack of one-time revenue sources such as transfers from the Rainy Day Fund and HCPRA that occurred in FY 2009-10.
- Motor License Fund revenue receipts are expected to decrease in FY 2010-11 by less than 1% from the current year.
- Total Lottery Fund revenues are expected to increase by 1.9%.
- A transfer of \$105 million from the State Stores Fund to the General Fund is anticipated in FY 2010-11. This is identical to the current year's transfer.

Proposed Tax and Revenue Modifications*Non-Tax Revenue:*

Transfer from Oil and Gas Lease Fund – A \$180 million transfer of the proceeds of the Marcellus Shale lease payments to the General Fund is proposed. The amount includes \$68 million in unanticipated revenues from the most recent DCNR lease offering.

Tax Revenue:

Stimulus Transition Reserve Fund – A new state fund is proposed to be created to receive certain revenues totaling \$874 million that will assist the Commonwealth in replacing revenues currently being received in the form of federal fiscal relief as provided through the American Recovery and Reinvestment Act (ARRA). The additional revenue proposed below will not be appropriated in fiscal year 2010-11, but rather will be set aside as a down payment in anticipation of the end of ARRA funding in fiscal year 2011-12.

- Sales and Use Tax – Proposes to reduce the sales tax rate from 6% to 4%, while also expanding the SUT base by eliminating seventy-four specific tax exemptions. The current exemptions for food, clothing and pharmaceuticals are maintained. The plan also preserves the original exemptions for manufacturers that cover processing, agriculture, and machinery and equipment. Expanding the sales tax base and reducing the rate is estimated to generate an additional \$531.5 million in FY 2010-11. The changes will be effective September 1, 2010. Examples of goods and services that may now be taxable include the following:

GOVERNOR'S BUDGET FOR 2010-11

- Personal hygiene products
- Non-prescription drugs
- Coal and firewood
- Caskets and burial vaults
- Candy and gum
- Nearly all services except for healthcare services and educational tuition
 - Residential telephone and electric service
 - Basic television service (i.e. cable TV)
 - Funeral services
 - Personal care and laundry services (e.g. haircuts, dry cleaning)
 - Legal services
 - Financial and insurance services
 - Scientific research and development services
 - Recreation services (admissions to cultural and sporting events)
 - Architectural and engineering services
 - Computer programming services
 - Accounting and bookkeeping services
 - Transportation services (e.g. air and truck transportation)
- Sales and Use Tax – The one percent discount for the timely remittance of sales tax collected by licensed vendors is proposed to be eliminated, which would generate an estimated \$73.6 million in FY 2010-11.
- Severance Tax – A new tax on the severance of natural gas within the commonwealth is proposed to generate an estimated \$160.7 million in FY 2010-11. The tax is effective July 1, 2010.
- Corporate Net Income Tax – Proposes a comprehensive reform package similar to that proposed by the Pennsylvania Business Tax Reform Commission in 2004. The changes are expected to increase the CNI tax by \$66.6 million in FY 2010-11, and they will become effective for tax years beginning on or after January 1, 2011.
 - Reduces the CNI tax rate from 9.99% to 8.99%.
 - Implements a mandatory unitary combined reporting system.
 - Eliminates the annual cap on net operating losses – but only for losses generated under the new combined reporting system.
 - Implements a single (100%) sales factor formula for CNI tax apportionment.

GOVERNOR'S BUDGET FOR 2010-11

Other Tobacco Products Tax – A new tax on other tobacco products, including smokeless tobacco, large cigars, and loose tobacco is proposed and would generate \$41.6 million. The proposed tax would be effective July 1, 2010.

AGRICULTURE

- Reduces funding for the Department of Agriculture's General Government Operations by \$283,000, or 1%.
- Authorizes \$28 million from the Agricultural Conservation Easement Fund for Farmland Preservation, the same amount as in the current year.
- Includes \$310,000 for Agricultural Excellence, a \$3,000, or 1% decrease.
- Provides \$4.9 million for the Animal Health Commission, a \$249,000, or 4.8% reduction.
- Reduces the Transfer to the State Farm Products Show Fund by \$100,000, or 3.5%.
- Reduces funding for the Livestock Show, Open Dairy Show, Junior Dairy Show and 4-H Club Shows each by approximately 10%.
- Includes \$1 million for Crop Insurance, a \$400,000, or 66.7% increase.
- Maintains funding for the State Food Purchase Program at \$18 million and Farmers Market Food Coupons at \$2.2 million.
- The Transfer to the Nutrient Management Fund is reduced by \$100,000, or 3.2%.
- Provides \$1.08 million for the Transfer to the Conservation District Fund for Local Soil and Water Districts, a decrease of \$570,000, or 34.5%.
- Estimates \$4.5 million in funds available for the Resource Enhancement and Protection Tax Credit (REAP), a \$500,000, or 10% reduction.
- Funding for the following programs is eliminated: Agricultural Research; Payments to PA Fairs; Agricultural, Promotion, Education and Exports; Hardwoods Research and Promotion; Farm Safety; Food Marketing & Research; and Agriculture and Rural Youth.

GOVERNOR'S BUDGET FOR 2010-11

BASIC EDUCATION

- The Governor's Budget provides \$5.88 billion for the Basic Education Subsidy, a \$354.8 million, or 6.4% increase.
 - This appropriation includes \$5.226 billion in State Funds and \$654.7 million in Federal ARRA State Fiscal Stabilization Funds.
- Includes \$24.8 million for the Department's General Government Operations, a \$1.5 million, or 5.9% decrease.
- Establishes a new Teacher Certification appropriation containing \$2.4 million. Funding for the Department's teacher certification responsibilities has traditionally been included in the General Government Operations appropriation.
- Includes \$11.3 million for School Improvement Grants, a \$114,000, or 1% reduction.
- Maintains funding for the Reimbursement to School Districts for Charter School Expenses at \$226.9 million.
- Provides \$55.3 million for the Education Assistance Program (Tutoring), a \$3.8 million, or 6.4% reduction.
- Provides \$38.6 million for Head Start Supplemental Assistance, a \$784,000, or 2% reduction.
- Includes \$85.9 million for Pre-K Counts, a \$475,000, or 0.5% reduction.
- Provides \$13.4 million for the Science: Its Elementary, a \$136,000, or 1% reduction.
- Funding for Science and Math Education Programs (Science in Motion) is not included in the proposed budget.
- Reduces funding for Teacher Professional Development by \$2.25 million, or 9%.
- Continues funding for Dual Enrollment Programs at \$8 million.
- Provides \$3.6 million for High School Reform Program (Project 720), a reduction of \$37,000 or 1%.
- Reduces funding for Authority Rentals and Sinking Funds by \$11.5 million, or 3.5%.

GOVERNOR'S BUDGET FOR 2010-11

- Provides \$542.3 million for Pupil Transportation, a \$16.2 million, or 3.1% increase. Also included in the proposed budget is a request for an additional \$4.1 million to supplement the FY 2009-10 Pupil Transportation appropriation.
- Includes \$31.7 million for School Food Services, a \$634,000, or 2% increase.
- Provides \$3.3 million for RX for PA – School Food Services, a \$373,000, or 12.4% increase.
- Increases payments for School Employees' Social Security by \$22.5 million, or 4.3%.
- The proposed state share of the School Employees Retirement contribution is \$399.7 million, a \$65.2 million, or 19.5% increase. This figure requires the adoption of legislation to reamortize existing pension fund debt over 30 years and mandate certain minimum annual employer contribution rates. The projected state share without the legislation is estimated to be approximately \$540 million, a difference of \$140.3 million.
- Estimates \$50 million in funds available for the Education Improvement Tax Credit (EITC), a \$10 million, or 16.7% reduction.
- Includes \$91.9 million for Services to Nonpublic Schools, a \$2.8 million, or 3.2% increase.
- Provides \$28.1 million for and Textbooks, Materials and Equipment for Nonpublic Schools, an \$872,000, or 3.2% increase.
- Flat funds for Career and Technical Education (Vocational Education) at \$62 million.
- Funding for the Job Training Programs (Bidwell Training Center) appropriation is not included in the proposed budget.

SPECIAL EDUCATION

- Provides \$1.026 billion for Special Education Funding, the same amount as provided in the current year.
- Includes \$186.1 million for Early Intervention Services, a \$12.5 million, or 7.2% increase. The new money will provide services to 1,229 additional children ages 3 through 5.
- Continues funding for Approved Private Schools (APS) at \$98 million.
- Increases funding for the Charter Schools for the Deaf and Blind by \$2.6 million, or 7.1%. Increased costs are related to the Scranton State School for the Deaf Transition.

GOVERNOR'S BUDGET FOR 2010-11

LIBRARIES

- Funding for the State Library is reduced by \$24,000, or 1%.
- Includes \$58.8 million for the Public Library Subsidy, a \$1.2 million, or 2% reduction.
- The Library Services for the Visually Impaired appropriation is decreased by \$29,000, or 1%.
- The Library Access appropriation is decreased by \$30,000, or 1%.

HIGHER EDUCATION

- The proposed budget maintains funding at FY 2009-10 levels for the State System of Higher Education, Community Colleges, the State-related universities and the Thaddeus Stevens College of Technology. The amounts below include Federal ARRA State Fiscal Stabilization Funds.
 - State System of Higher Education -- \$503.3 million
 - Community Colleges -- \$282.1 million
 - Penn State University -- \$333.8 million
 - University of Pittsburgh -- \$167.9 million
 - Temple University -- \$172.7 million
 - Lincoln University -- \$13.7 million
 - Thaddeus Stevens College of Technology -- \$10.8 million
- Maintains funding for PHEAA Grants to Students to at \$403.6 million and Institutional Assistance Grants at \$30.2 million.
- Maintains funding for the University of Pennsylvania's School of Veterinary Medicine at \$30 million and includes \$500,000 for the University's Clinical Center for Infectious Disease.
- Funding for the State-aided universities and institutions is not included in the proposed budget. This includes: Drexel University; Philadelphia College of Osteopathic Medicine; Lake Erie College of Osteopathic Medicine; Salus University (Pennsylvania College of Optometry); University of the Arts; Johnson Technical Institute; and The Williamson Free School of Mechanical Trades.

GOVERNOR'S BUDGET FOR 2010-11

COMMUNITY & ECONOMIC DEVELOPMENT

Department Total

- DCED's total General Fund state funds appropriation is proposed to be increased by \$21.5 million, or 7.8%, for FY 2010-11 as compared to the FY 2009-10 state funds appropriation.
- General Government Operations and many other selected program areas are subject to a 1% across-the-board funding cut.

Community and Economic Development Support Services

- Decreases the Tourist Promotion Assistance (TPA) program by \$2.25 million.
- Decreases the Marketing to Attract Tourists program by \$750,000.
- Decreases the World Trade PA program by \$750,000.

Business and Job Development

- Transfers \$83.3 million to the Commonwealth Financing Authority to provide debt service for economic development bonds, which is an increase of \$18.3 million over the current year.
- Increases the Governor's Opportunity Grant program by \$6.7 million, from \$18.3 million to \$25 million.
- Expands the Infrastructure & Facilities Improvement Grants program by \$2 million. The total cost of the program will increase from \$28 million to \$30 million. The program was established in Act 23 of 2004 and awards multi-year grants to debt issuing authorities toward the payment of debt service and related costs for economic development projects.
- Increases the Infrastructure Development program by \$4 million, from \$15 million to \$19 million.
- Increases the Customized Job Training program by \$2 million, from \$9 million to \$11 million.

Technology Development

- Maintains the transfer to the Ben Franklin Technology Development Authority Fund at \$20 million for FY 2010-11.
- Decreases the appropriation for the Industrial Resource Centers by \$750,000.
- Funding for the Life Sciences Greenhouses from the Tobacco Settlement Fund remains steady at \$3 million.

Community Development

- The New Communities program is reduced by \$1.25 million, from \$11.25 million to \$10 million.

GOVERNOR'S BUDGET FOR 2010-11

CONSERVATION & NATURAL RESOURCES

- The State Forest Operations appropriation provides funding for twelve new positions for forest management activities related to oil and gas drilling. The Governor's proposed reduction to this line-item results in a 1% decrease from the FY 2009-10 appropriation.
- Timber sales revenue, augmenting the State Forest Operations appropriation, is expected to rebound from the current year's estimate of \$15 million to \$23.318 million for FY 2010-11.

Keystone Recreation, Park and Conservation Fund

- The Governor assumes a \$3.706 million increase in realty transfer tax revenue in FY 2010-11 totaling \$51.671 million.
- Expenditures from the fund include \$4 million increase in funding for Parks and Forest Facility Rehabilitation.
- Funding is also restored for grants to Libraries, Historical Site Development and for the State System of Higher Education's Deferred Maintenance Program.

Oil and Gas Lease Fund

- A \$180 million transfer of the proceeds of the Marcellus Shale lease payments to the General Fund is proposed. The amount includes \$68 million in unanticipated revenues from the most recent DCNR lease offering.

Environmental Stewardship Fund

- Estimated awards for Community Conservation grants are decreased by \$682,000, or 8.7%, to \$7.193 million.

CORRECTIONS

The Governor's Budget proposes \$1.9 billion to operate the Department of Corrections in FY 2010-11. This is an increase of \$136.8 million (7.7%).

This funding includes the following:

- \$9.4 million for contracted medical services and pharmacy costs;
- 10.4 million to operate SCI Waynesburg for the entire fiscal year;
- \$13 million to increase capacity at nine corrections facilities by 2,000 beds; and
- \$32 million to place 2,100 inmates in correctional institutions in Michigan and Virginia for the entire fiscal year.

GOVERNOR'S BUDGET FOR 2010-11

- General Government Operations is funded at \$32.3 million, a decrease of \$326,000 (1%).
- State Correctional Institutions are funded at \$1.6 billion, an increase of \$118.5 million (8%). Included in this amount is \$173 million of ARRA – Fiscal Stabilization funds.
- Medical Care for inmates is funded at \$246.3 million, an increase of \$16.8 million (7.3%).
- Inmate Education and Training is funded at \$43.9 million, an increase of \$1.9 million (4.5%).

DEPARTMENT OF AGING AND LONG-TERM LIVING

- The budget again proposes a reorganization of the long-term living system by integrating several programs managed by the departments of Aging and Public Welfare in the newly created Department of Aging and Long-Term Living.
- Establishing this single entity for the administration of long-term living services would consolidate policy, quality management and administration into one department for persons with disabilities and older Pennsylvanians. Legislation is required to establish the new department.

Other Changes in the Department of Aging and Long-Term Living

- Adds \$33.7 million in state funds to offset the decrease in Tobacco Settlement funds available for the Long-Term Care appropriation and for home and community based services.
- Adds \$6.2 million in state funds to provide home and community-based services to 1,692 additional older Pennsylvanians as an alternative to institutional care in the Long-Term Care appropriation.
- Includes \$993,000 in state funds to implement an assisted living waiver that will allow individuals to receive home and community-based services as an alternative to institutional care.
- Provides \$6 million in state funds in the Services to Persons with Disabilities appropriation to provide home and community-based services to 744 additional individuals.
- Provides \$5.1 million in state funds in the Attendant Care appropriation to provide home and community-based services to 780 additional individuals.
- For program increases provided with Lottery Funds for this department, refer to the separate Lottery section.

GOVERNOR'S BUDGET FOR 2010-11

EMERGENCY MANAGEMENT & HOMELAND SECURITY

- Funding for the General Government Operations appropriation is maintained at the FY 2009-10 level, equaling \$5.921 million for FY 2010-11.
- Funding for the Red Cross Extended Care program is reduced by 1% to \$297,000 for FY 2010-11.
- The Regional Events Security appropriation is funded at \$2 million for FY 2010-11, a \$3 million decrease from the FY 2009-10 appropriation. The FY 2009-10 appropriation included \$3 million in non-recurring costs for law enforcement, security, and public safety activities related to the September 2009 International G-20 Summit.

ENVIRONMENTAL PROTECTION

The proposed FY 2010-11 budget fully funds 68 new positions for oil and gas inspectors related to Marcellus Shale drilling activity from the Well Plugging Restricted Account.

Environmental Stewardship Fund:

- Debt service for the Growing Greener II bond is estimated to increase by \$4.9 million to \$36.833 million in FY 2010-11.
- Funding for Watershed Protection and Restoration projects is expected to decrease to \$12.404 million in FY 2010-11, a reduction of over \$1 million from FY 2009-10.
- The Agricultural Conservation and Easement program funding is decreased from \$5.327 million in FY 2009-10 to \$4.909 million in FY 2010-11.
- Revenues from the \$4.25 per ton tipping fee are expected to decrease nearly \$3 million to \$65 million in FY 2010-11.
- Sewage Facilities Planning Grants are reduced by \$100,000, or 10%.
- Sewage Facilities Enforcement Grants are reduced by \$300,000, or 10%.
- The Susquehanna River Basin Commission and the Delaware River Basin Commission each received a 1% decrease in funding from FY 2009-10. The appropriations total \$660,000 and \$1.020 million, respectively.
- The Black Fly Control and Research appropriation is recommended to be funded at \$3.692 million, a decrease of \$1.414 million, or 27.69%.
- The West Nile Virus Control appropriation is recommended to be funded at \$4.607 million, a decrease of \$586,000, or 11.28%.

GOVERNOR'S BUDGET FOR 2010-11**EXECUTIVE OFFICES**

- The Governor's budget proposes General Fund appropriations of \$183.9 million and Motor License Fund appropriations of \$25.1 million for Executive Offices. These amounts represent a decrease of \$20.5 million, or 10%, for the General fund and an increase of \$1.6 million, or 7%, for the Motor License Fund.
- In FY 2009-10, The Office of Health Care Reform and Rx for PA – Health Information Exchange were funded at \$1 million each. The proposed funding for FY 2010-11 is \$990,000. This equates to an overall funding reduction of \$20,000, or 1%. The budget anticipates \$18 million in federal funding to be used for the Rx for PA- Health Information Exchange – an increase of \$11.9 million, or 164%.
- Public Television Technology has been reduced by \$500,000 to \$1 million. The Governor has also proposed eliminating the Public Television Station Grants, which are funded in the current fiscal year at \$1 million.

The Governor has eliminated funding for the following grant programs:

- Law Enforcement Activities;
- Cultural Preservation Assistance;
- Safe Neighborhoods; and
- Violence Reduction.
- The General Fund appropriation for Commonwealth Technology Services is recommended at \$44.8 million, a reduction of \$450,000. The Governor partially offsets the General Fund reduction with a Motor License Fund increase of \$100,000.
- The Governor proposes combined General Fund and Motor License Fund appropriations of \$25.5 million for the Statewide Public Safety Radio System. The combined amount represents a net decrease of \$200,000, or less than 1%.

GAMING CONTROL BOARD**Gaming Operations**

The budget recommends the following appropriations totaling \$67.8 million:

- Pennsylvania Gaming Control Board - \$37.4 million (10.8% increase)
- Department of Revenue - \$9.9 million (1.9% increase)
- Pennsylvania State Police - \$19.5 million (17.4% increase)
- Attorney General - \$1.0 million (8.8% increase)

GOVERNOR'S BUDGET FOR 2010-11

State Gaming Fund

Receipts:

Total receipts of \$981.4 million to the State Gaming Fund are estimated for FY 2010-11 from the following sources:

- License Fees - \$2.5 million
- Licensee Deposit Accounts - \$65.9 million
- State Tax Revenue – \$797.2 million
- Local Share Assessment - \$107 million
- Other - \$8.8 million

Disbursements:

Disbursements of \$996.8 million from the State Gaming Fund are estimated to be transferred to the following:

- Emergency Management & Homeland Security Volunteer Company Grants - \$25 million
- Local Law Enforcement Grants - \$2 million
- Local Share Distribution - \$126.2 million
- Transfer to Property Tax Relief Fund - \$767.4 million
- Administrative Appropriations (i.e. PGCB, PSP, DOR, OAG) - \$59.8 million
- Payment in Lieu of Taxes - \$8.5 million
- Compulsive and Problem Gambling Treatment Fund (incl. Drug & Alcohol) - \$7.9 million

GENERAL SERVICES

- Includes \$73 million for the Department's General Government Operations, a \$51,000, or 0.07% reduction.
- Increases funding for Utility Costs by \$1.9 million, or 7.7%. Includes payments for water, sewer, electric and heating fuel for Commonwealth owned buildings.
- Increases funding for Rental and Municipal Charges related to the operations of Harristown I and II and related parking garages by \$1.2 million, or 6%. Also included in the proposed budget is a request for an additional \$1.5 million to supplement the FY 2009-10 Rental and Municipal Charges appropriation.
- Maintains funding for Excess Insurance Coverage at \$1.3 million.

GOVERNOR'S BUDGET FOR 2010-11

- Includes \$990,000 for Capitol Fire Protection paid to the City of Harrisburg, a \$10,000, or 1% reduction.

HEALTH

- The Governor's Budget proposes to fund the Department of Health at \$232.2 million, a decrease of \$7 million (2.9%). This is a result of several modest decreases throughout the department along with several eliminations of appropriations.
- All non-preferred appropriations within the department are eliminated in this budget.

HISTORICAL & MUSEUM COMMISSION

- Includes \$19.3 million for the Commission's General Government Operations, a \$195,000, or 1% reduction.
- Funding for the following appropriations is eliminated: Museum Assistance Grants; Regional History Centers; University of Pennsylvania Museum; Carnegie Museum of Natural History; Carnegie Science Center; Franklin Institute Science Museum; Academy of Natural Sciences; African American Museum; Everhart Museum; Mercer Museum; and Whitaker Center for the Science and Arts.

INSURANCE

- Provides an additional \$3.3 million in state funds in the Children's Health Insurance Program (CHIP) to provide free and subsidized health care insurance for an average monthly increase of 10,300 additional uninsured children over the FY 2009-10 average monthly enrollment of 198,240.

JUDICIARY

- The proposed state funding to run the Judiciary in the Commonwealth for FY 2010-11 is \$276.9 million.
- All appropriations within the Judiciary are proposed at level funding.

The following funding has been proposed for the Commonwealth's Courts:

- Supreme Court \$13.4 million
- Superior Court \$26.2 million
- Commonwealth Court \$15.9 million
- Courts of Common Pleas \$79.1 million

GOVERNOR'S BUDGET FOR 2010-11

- Magisterial District Judges \$59 million
- Philadelphia Courts:
 - Traffic Court \$912,000
 - Municipal Court \$5.5 million

Total Funding for Courts: \$200 million

LABOR & INDUSTRY

- The General Government Operations appropriation is increased by approximately 3.3% to \$14.090 million.
- The New Choices/New Options appropriation is eliminated for FY 2010-11.
- 54 new positions are authorized for workers compensation processing and oversight. These positions are funded from Workmen's Compensation Administration Fund monies, which are derived from annual assessments on insurers and self-insurers.
- Funding for Beacon Lodge Camp is eliminated for FY 2010-11.

LEGISLATURE

- The Governor's budget proposes a 1% reduction to all legislative line-items.
- The Governor recommends a total of \$600,000 for reapportionment expenses.

LOTTERY

- The FY 2010-11 estimated gross ticket sales are projected to grow by 1.6% over FY 2009-10.
- The \$100 million Lottery Fund reserve that was drawn down in FY 2008-09 and projected to be replenished in FY 2009-10 is nonexistent in FY 2010-11 and beyond.
- The Lottery Fund is scheduled to receive a \$165.9 million transfer from the State Gaming Fund in accordance with Act 1 of Special Session No. 1 of 2006 for the expansion of the Property Tax/Rent Rebate program.

Community Services for Older Pennsylvanians

Medical Assistance – Long-Term Care:

- Lottery funds available for the Long-Term Care program are expected to remain unchanged from FY 2009-10 at \$178.4 million.

GOVERNOR'S BUDGET FOR 2010-11

PENNCARE:

- Provides a \$3 million increase to the PENNCARE appropriation in order to provide attendant care services funded through the Lottery Fund to an additional 285 recipients.
- Includes a \$2.9 million increase to continue current attendant care services that are funded through the Lottery Fund.

Pharmaceutical Assistance

PACE/PACENET:

- The budget proposes to include the PACE/PACENET program in the National Medicaid Pooling Initiative to receive additional pharmaceutical rebates. This initiative is expected to result in savings of \$14.9 million to the program. In addition, the budget anticipates that federal reform for Medicare Part D will reduce the amount the program pays for doughnut hole coverage for its participants, resulting in additional savings of \$5 million.
- A nearly \$10 million increase in Lottery Funds is required to support the PACE program due to increases in costs and number of enrollees.
- Appropriates \$200 million to the Pharmaceutical Assistance Fund for the PACE/PACENET program. This is \$10 million less than last year's appropriation of \$210 million, which results from the net effect of the changes outlined above.
- Estimated expenditures to fund the FY 2010-11 program are \$251.7 million.

Homeowners and Renters Assistance

Property Tax and Rent Assistance for Older Pennsylvanians:

- The amount available for PTRR stabilizes at \$276.5 million now that the provisions of the Taxpayer Relief Act of 2006 have been fully phased in.

LIQUOR CONTROL BOARD

- The Liquor Control Board's executive authorization for General Government Operations is increased by \$14.9 million, or 3.6%.
- The executive authorization for Comptroller Operations is increased by \$78,000, or 1.3%.
- The executive authorization transferring profits to the General Fund is proposed at \$105 million, the same amount as transferred in the current year.

MILITARY & VETERANS AFFAIRS

- Total state funding for the Department of Military and Veterans Affairs for FY 2010-11 is proposed at \$115.6 million, an increase of \$4.4 million (3.9%).

GOVERNOR'S BUDGET FOR 2010-11

- The General Government Operations received a decrease of \$191,000 (1%) to bring the total General Government Operations funding to \$18.9 million.
- Facilities Management and Security is proposed at \$247,000, which is a modest decrease of \$3,000 (1.2%).
- The Governor has proposed restoring funding in the FY 2010-11 budget for the Armory Maintenance and Repair program, which was eliminated last fiscal year. Proposed funding is \$500,000.
- The Governor has proposed eliminating funding for the Civil Air Patrol.
- Funding for State Veterans Homes is proposed at \$85.3 million, which is an increase of \$3.3 million (4%).

The following appropriations have been proposed to be level-funded:

- Supplemental Life Insurance Premiums: \$371,000
 - Burial Detail Honor Guard: \$76,000
 - Special State Duty: \$36,000
 - Education of Veterans' Children: \$103,000
 - Veterans Assistance: \$428,000
 - Paralyzed Veterans' Pension: \$419,000
 - National Guard Pension: \$5,000
 - Disabled American Veterans' Transportation: \$350,000
 - Veterans' Outreach Services: \$1.7 million.
- The Transfer to Education Assistance Program Fund is proposed at \$7 million, which is an increase of \$1 million (16.7%).
 - The Blind Veterans' Pension was reduced by \$86,000 (28.1%), to bring the appropriation to \$220,000 due to "reduced program need". However, the Program Measures indicate a 4% increase in recipients in fiscal year 2010-11.

PENSIONS-PSERS AND SERS

- In FY 2012-13, the Commonwealth and school districts will face a sharp increase in employer contributions to the Public School Employees Retirement System (PSERS) and the State Employees Retirement System (SERS). Under current law, both systems would experience year-over-year increases in employer contributions in FY 2012-2013 exceeding \$1 billion.
- The PSERS employer contribution would increase from \$758 million to approximately \$1.88 billion and the SERS contribution would increase from \$531 million to \$1.77 billion.

GOVERNOR'S BUDGET FOR 2010-11

- According to the Governor, his pension funding method insulates the Commonwealth and school districts from the employer rate spike in a manner that recognizes the need for state and school employers to contribute significant additional funds to the systems over the next decade.

The Governor's plan to mitigate the rate spike has two components:

- Re-amortize the pensions' liabilities over 30 years.
- Limit annual contribution rate increases to 1% of payroll in the FY 2010-11 and 3% of payroll thereafter for approximately 10 years or less if investment earning exceed the assumed rate of return.
- Under current law, the PSERS rate increases from 4.78% of payroll to 8.22% resulting in an increased employer contribution of about \$208 million (state share only). Similarly, the SERS rate is projected to increase from 4% to approximately 5.88% resulting in an increased employer contribution of about \$59 million for the General Fund. The Governor's plan, however significantly reduces employer contributions for FY 2010-11.

PROBATION & PAROLE

- The Board of Probation and Parole received an overall increase of \$8.2 million (7%), to bring their total state funding to \$125.8 million.
- The General Government Operations is increased by \$8.1 million (8.5%) to \$103.1 million. This includes an additional \$2 million for an "Enhancement of Parole Supervision and Case Management Services" initiative to maintain a favorable agent-to-parolee ratio and to support increased parole decision making and case processing.
- The Sexual Offenders Assessment Board received an increase of \$448,000 (11.2%).
- The Improvement of Adult Probation Services grant program was reduced by \$372,000 (2%).

PUBLIC WELFARE

Medical Assistance (MA)

The FY 2010-11 budget includes several cost containment initiatives including:

- Reduced Fraud and Abuse and Expanded Third-Party Liability – Legislation will be introduced for a State False Claims Act and to strengthen the Recipient Restriction Program. In addition, several administrative changes will be implemented to strengthen current efforts to identify and pursue cases of provider and recipient fraud, abuse and waste as well as increase third-party payer recoveries. State fund savings of \$4.4 million.

GOVERNOR'S BUDGET FOR 2010-11

- Reduce Supplemental Payments to Hospitals – State fund savings from this initiative total \$25.6 million, with \$5.5 million in the MA – Outpatient appropriation and \$20.1 million in the MA – Inpatient appropriation. These reductions are computed using the supplemental payment levels as they would have been before the FY 2009-10 payment reductions. Therefore these reductions are **not in addition** to the FY 2009-10 payment reductions to supplemental payments.
- Increase Pharmacy Efficiencies – Actions will be taken to further refine pharmacy utilization management to ensure patient safety and enforce appropriate medication prescribing. The modifications planned are consistent with commercial coverage of pharmacy services and will increase medication compliance rates, improve clinical outcomes and further control expenditures. Changes include expansion of both automated prior authorization and the Specialty Pharmacy Drug Program. State fund savings of \$4.6 million.
- Increased Pharmaceutical Rebates – Assumes that federal legislation will be enacted that will allow the state to realize additional revenues by collecting federal rebates on drug expenditures of Medicaid managed care organizations, resulting in state fund savings of \$102.5 million. This proposal replaces previous year state managed care drug carve-out (smart pharmacy) proposals.
- \$130 million in state funds is provided in the MA – Capitation appropriation to provide for federally required actuarially sound rates and \$29 million in state funds is included to provide for prior-year pay-for-performance program payments.
- In FY 2010-11, the MA program will provide health care and long-term care services to an average monthly 2,130,785 Pennsylvanians, an increase of three percent over the average monthly 2,068,699 people receiving services in FY 2009-10.
- Provides an additional \$30.8 million in state funds for mandated payments to the federal government for the Medicare Part D drug program.

Other Public Welfare Programs

- Reduces state funding in the New Directions appropriation by \$5.3 million to reflect a reduction in employment and training contracts.
- Increases state funding by \$17.6 million in the Cash Grant appropriation to reflect the impact of caseload increases. The average monthly number of persons receiving cash assistance is estimated to be 257,615, a 5.4 percent increase over the FY 2009-10 monthly average of 244,371.
- FY 2010-11 funding for the Supplemental Grants – Aged, Blind, and Disabled appropriation reflects the annualized impact of savings from the FY 2009-10 revision to recipient grant amounts, as well as the impact of caseload increases.

GOVERNOR'S BUDGET FOR 2010-11

- State funding for Mental Health Services appropriation is reduced by \$18.4 million. \$20 million in savings is due to utilization of prior year Federal funds and \$13 million in savings is identified from the closure of Allentown State Hospital. In addition, \$5 million in state fund savings from the Forensic Services Reimbursement initiative is achieved through reimbursement for the first 90 days consumers reside in the state mental hospital forensic units. Offsetting these reductions is \$14.3 million in state funding to provide home and community-based services for 155 individuals currently residing in state hospitals and \$7 million to continue current program.
- Provides state funds of \$2.1 million in the Community Mental Retardation – Waiver Program to provide home and community-based services for 150 additional persons with mental retardation, including 100 young people leaving the special education system. In addition, \$10.7 million in state funds is provided to annualize previous program expansions providing enhanced community services.
- State funding for County Child Welfare increases by \$23.7 million over the FY 2009-10 appropriated amount but total funding in FY 2010-11 is \$13 million less than the amount appropriated for FY 2009-10.
- Proposes \$5.3 million in state funds to provide early intervention services to 1,172 additional children from birth to age three.
- Budget does not appear to provide cost-of-living increases to community programs.

REVENUE**Revenue Collection and Administration***General Government Operations:*

- Decreases the General Government Operations appropriation by nearly \$1.5 million, from \$142.9 million to \$141.4 million, which is equal to a 1% across-the-board reduction.
- Provides \$23.8 million to modernize the department's tax information systems and revenue collection processes. This is a \$5.6 million increase over the FY 2009-10 appropriation of \$18.2 million. This is the second year of a five year initiative that is estimated to cost over \$100 million.

Lottery Fund

- Lottery advertising is decreased from \$39 million to \$37 million.
- Decreases payment of prize money by \$22.6 million based on the latest projection of program requirements.

GOVERNOR'S BUDGET FOR 2010-11

INDEBTEDNESS

- The Governor's proposed Capital Budget program would require the Commonwealth to issue general obligation bonds in the amount of \$1.55 billion in FY 2010-11, an increase of \$100 million. The Governor is also recommending that the Commonwealth incur voter-approved debt in the amount of \$206.5 million.

The voter-approved bonds would be issued as follows:

- PennVEST \$50 million
 - Water and Wastewater \$34 million
 - Growing Greener II \$120.5 million
 - Persian Gulf Veterans' Compensation \$2 million
- The proposed appropriation for general obligation debt service with the Treasury Department is \$1.01 billion. This amount represents an increase of \$82.2 million from the current year. Commonwealth Financing Authority debt service increases by approximately \$18.3 million to \$83.3 million. Growing Greener II debt service to be paid from the Environmental Stewardship Fund is approximately \$36.8 million.
 - Total general obligation debt outstanding at the close of FY 2009-10 is estimated at \$9.62 billion.

STATE POLICE

- Total state funding for the State Police is proposed at \$718.2 million, of which \$533.5 million (74.3%) comes from the Motor License Fund and \$184.7 million (25.7%) from the General Fund. This is an overall increase of \$16.6 million (2.4%).
- Total proposed funding for the General Government Operations is \$666.6 million, an increase of \$16.6 million (2.6%). Included in this appropriation is an increase of \$5.1 million to fund a class of 100 cadets.
- State funding for Gun Checks for FY 2010-11 is proposed at \$2.4 million, a decrease of 4%.
- The Governor has proposed reducing the Municipal Police Training program from \$1.2 million to \$1.1 million (9.8%).
- The proposed appropriation for the Bureau of Liquor Control Enforcement, which is funded from the State Stores Fund, is \$25.3 million. This is a \$418,000 increase (1.7%).
- The Governor proposes to appropriate \$19.5 million from the State Gaming Fund to the State Police for Gaming Enforcement. This is an increase of \$2.9 million (17.4%).

GOVERNOR'S BUDGET FOR 2010-11

TOBACCO SETTLEMENT

- The FY 2010-11 proposed budget continues the current practice of redirecting 25 percent of the funds allocated to tobacco use prevention and cessation activities, 33 percent of funds allocated to health care insurance for uninsured adults, 100 percent of the funds allocated to the Health Endowment Account, tobacco revenue and interest earnings and the annual strategic contribution payment to offset the cost of long-term care.
- In addition, the proposed budget continues the current practice of redirecting 37.5 percent of the funds allocated to tobacco use prevention and cessation to the General Fund and also proposes transferring \$250 million from the Health Endowment Account to the General Fund.

Community Health Reinvestment Account

- The proposed budget assumes continuation of Community Health Reinvestment contributions and assumes that funding from this source for the adultBasic program will increase from \$125.2 million in FY 2009-10 to \$183.6 million in FY 2010-11.
- The Community Health Reinvestment Account is used for the restricted receipt and disbursement of funds received in accordance with the Community Health Reinvestment Agreement entered into on February 2, 2005 by the Insurance Department with Pennsylvania's Blue Cross/Blue Shield plans. The Community Health Reinvestment Agreement is scheduled to expire December 31, 2010.

TRANSPORTATION

- The total General Fund budget proposed for the Department of Transportation is \$12 million, an increase of \$1 million (9.3%). This includes modest increases in all appropriations funded within the Department by the General Fund with the exception of Vehicle Sales Tax Collections, which received a 2% decrease.
- The total Motor License Fund budget proposed for the Department of Transportation is \$2.1 billion, an increase of \$5.7 million.
- This budget request assumes that the federal government will approve Pennsylvania's request to institute tolling of Interstate 80 or the Turnpike Commission will borrow the funds needed to make annual payments to the Motor License Fund and the Public Transportation Fund as required by Act 44-2007.

The FY 2010-11 payments are as follows:

GOVERNOR'S BUDGET FOR 2010-11

- \$410 million to the Public Transportation Trust Fund. These funds, along with additional transit revenues, will bring the total mass transit funding to approximately \$1.15 billion. Transit funding is **not** appropriated by the General Assembly.
- \$512.5 million to the Motor License Fund, of which \$477.5 million is appropriated for state-owned roads and bridges, \$30 million for municipal roads and bridges and \$5 million for county bridges.
- This budget proposes a continuation of the bridge capital bond program. In the current fiscal year, the Administration has the authority to issue \$200 million in bonds to pay for bridge reconstruction and rehabilitation. This budget proposes an additional \$200 million in bond funding for bridges in FY 2010-11 and forecasts this amount of borrowing on an annual basis at least through FY 2014-15. Debt service would be paid from revenue generated from 8 cents of the gas tax that is currently dedicated to bridge construction.

Notable Motor License Fund cuts include the following:

- Highway and Safety Improvements: decrease of \$4 million (3.8%)
- Safety Administration and Licensing: decrease of \$2.6 million (2%)
- Local Road Maintenance & Construction Payments: decrease of \$2.9 million (1.5%)
- Secondary Roads – Maintenance and Resurfacing: decrease of \$2.1 million (3.3%)

Notable Motor License Fund increases include the following

- Highway Capital Projects (EA): increase of \$4 million (2%)
- Highway Maintenance: increase of \$1 million (0.1%)