



Budget Analysis

Governor's Proposed 2011-12 Budget

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 March 8, 2011 • Updated: March 11, 2011

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Overview

The state budget proposed by Governor Tom Corbett for the 2011-12 Fiscal Year makes deep cuts to education and higher education, as well as across-the-board cuts to most services and departments. At \$27.3 billion, the budget is 3.1%, or \$866 million, less than the available 2010-11 budget. This budget reduces spending to below the levels of three years ago.

The past two budgets were supported through temporary federal funding authorized by the American Recovery and Reinvestment Act (ARRA) to help states address recession-driven revenue declines. That funding was primarily used to support Medical Assistance and other programs administered through the Department of Public Welfare, as well as for basic education and colleges and universities.

General Fund Summary (in \$ thousands)								
	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Budget	2010-11 Available	2011-12 Gov. Budget	Change f/ 2010-11 Available	Percent Change
State Funds	\$26,968,310	\$27,084,355	\$24,942,387	\$25,288,632	\$25,142,560	\$27,331,219	\$2,188,659	8.7%
Federal ARRA Funds	\$0	\$1,239,252	\$2,756,113	\$2,754,505	\$3,054,992	\$0	-\$3,054,992	-100.0%
Total Spending	\$26,968,310	\$28,323,607	\$27,698,500	\$28,043,137	\$28,197,552	\$27,331,219	-\$866,333	-3.1%

Pennsylvania, like every other state, saw a steep decline in revenue collections in the wake of the recession. While the economy of 2011 is on the mend, with tax revenue running ahead of projections and unemployment continuing to drop each month, collections still have not returned to pre-recession levels.

As predicted, Governor Corbett did not include any revenue increases in the spending plan, relying instead on deep cuts. While a few areas, most notably public safety and prisons, would see budget increases, most departments would sustain General Fund cuts.

The budget does include a number of tax breaks for businesses, resuming the phase-out of the capital stock and franchise tax and adopting federal bonus depreciation rules that reduce revenue by \$200 million to \$400 million. The budget does not include any tax on natural gas drilling.

The budget will impact environmental protection, agricultural funding, state parks, and economic development, among many other areas.

Education is hit with the worst of the cuts — a \$1.2 billion funding reduction. In proposing the education cuts, Governor Corbett called on public school employees to forego any pay increases this year. He also promised to make it easier for local school districts to furlough employees when funding falls short and said property tax increases that exceed the rate of inflation should go before voters.

Outside of education, the Department of Community Economic Development sustained the largest cut (\$104 million). The department's 127 programs were trimmed down to 56, and the Governor said WAMs were eliminated.

Altogether, education, health and human services and public safety comprise nearly 92% of total General Fund spending.

The budget anticipates a \$586 million surplus at the end of the 2010-11 Fiscal Year and projects a 4.3% increase in revenue collections in the 2011-12 Fiscal Year.

The budget does not propose privatizing state liquor stores, although the Governor did signal his continued support for this idea. He also announced the formation of a task force to identify options for the privatization of other public assets.

In addition to outlining his budget plan, Governor Corbett gave passing mention to some of his legislative and policy goals in the coming months, including:

- The passage of a private school vouchers program;
- The formation of a Marcellus Shale Commission; and
- The passage of a lawsuit reform measure known as joint and several liability.

General Fund Revenues

The 2011-12 Executive Budget includes \$27.9 billion in General Fund Revenue. This marks an increase of \$1.2 billion, or 4.3%, from expected collections in 2010-11.

Taxes

Governor Corbett proposes few changes for General Fund taxes. The phase-out of the capital stock and franchise tax, which was suspended for two years, will resume with a rate cut from 2.89 mills to 1.89 mills in tax year 2012.

General Fund tax revenue is projected to increase by \$1.2 billion, or 4.7%, in 2011-12. More than half of the increase (\$679 million) comes from the personal income tax (PIT), which is expected to grow by 6.7%. Sales tax revenue is expected to grow by \$155 million, or 1.8%.

Total corporate taxes are expected to increase by 5.3% in 2011-12. Corporate net income tax and gross receipts tax collections are both projected to increase almost 10% in the coming fiscal year. This projected growth includes the state's adoption of federal bonus depreciation, which is expected to cost between \$100 and \$400 million in 2011-12. With its scheduled rate reduction, capital stock and franchise tax collections are expected to decline by \$67 million, or 8.1%.

Among the state's other taxes, liquor and realty transfer taxes are expected to have significant increases in 2011-12. Table games tax revenue is also expected to increase, as it was phased-in over 2010-11.

Tax Credits

The 2009-10 budget agreement temporarily reduced a number of tax credits in 2009-10 and 2010-11. For most credits, including the Educational Improvement Tax Credit (EITC), 2011-12 marks a return to their fully authorized amount. The Governor proposes reducing the Film and Job Creation Tax Credits by \$15 million and \$12.4 million, respectively, and increasing the program cap for the Research and Development Tax Credit.

Non-Tax Revenues

Non-tax General Fund revenues are expected to decrease \$56.7 million, or 5.5%, in 2011-12. While the change in revenue is modest, a number of the components will change significantly. In 2010-11, \$180 million was diverted from the Oil and Gas Lease Fund to the General Fund; the 2011-12 budget does not include this transfer. The \$459 million Tobacco Settlement Fund would be fully transferred to the General Fund. \$52 million is redirected from PHEAA and the Automobile Catastrophic Fund.

Rainy Day Fund

The proposed budget seeks to suspend the required transfer of 25% of the expected \$586 million 2010-11 General Fund surplus and redirects it to finance the 2011-12 budget. If all goes as planned, the administration hopes to deposit \$1.2 million in the Rainy Day Fund at the end of the fiscal year.

Education

Public schools and higher education are particularly hard hit in this budget. Total education funding, at \$9.8 billion, sustains a cut of more \$1.2 billion.

Education Funding (in \$ thousands)								
	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Budget	2010-11 Available	2011-12 Gov. Budget	Change f/ 2010-11 Available	Percent Change
Education (preferred)	\$9,764,205	\$10,037,996	\$9,475,355	\$9,632,296	\$9,265,293	\$9,464,356	\$199,063	2.1%
Education (non-preferred)	\$780,293	\$728,020	\$659,233	\$687,161	\$657,159	\$334,638	-\$322,521	-49.1%
ARRA - Fiscal Stabilization	0	\$35,377	\$707,489	\$707,489	\$1,095,305	0	-\$1,095,305	-100.0%
Total Education	\$10,544,498	\$10,801,393	\$10,842,077	\$11,026,946	\$11,017,757	\$9,798,994	-\$1,218,763	-11.1%
<i>Basic Education (state)</i>	\$5,294,112	\$5,226,142	\$4,868,741	\$5,121,339	\$4,733,523	\$5,226,142	\$492,619	10.4%
<i>Basic Education (ARRA - Fiscal Stabilization)</i>	0	0	\$654,747	\$654,747	\$1,042,563	0	-\$1,042,563	-100.0%
Total Basic Education	\$5,294,112	\$5,226,142	\$5,523,488	\$5,776,086	\$5,776,086	\$5,226,142	-\$549,944	-9.5%

Basic and Special Education

The budget cuts basic education funding by 9.5%, or \$550 million, rolling funding back to 2008-09 levels. It eliminates other funding relied upon by school districts, including cuts of \$259 million to the Accountability Block Grant, \$224 million for charter school reimbursements to local school districts, and \$48 million for Educational Assistance (a Ridge era tutoring program).

Special education is flat-funded for the third year at just over \$1 billion. Teacher professional development is cut by 2/3, from \$21.6 million to \$7.3 million.

School Employees Retirement

The school employees' retirement line item will increase to reflect changes made in Act 120 of 2010. Spending will increase by \$328 million to \$615 million.

Library and Literacy Programs

The state library subsidy is flat-funded at \$53.5 million, while the State Library sustains an additional cut of 7%, with funding at just over \$2 million. Adult literacy programs are cut another 17%, from \$14.9 million to \$12.4 million.

Early Childhood Education

The budget continued the current year budgetary freeze for Pre-K Counts and the Head Start Supplemental Program. Funding for Pre-K Counts is \$83.6 million and Head Start is \$37.7 million.

The budget does provide an increase in Early Intervention for 1,500 additional children aged three to five.

Higher Education

Higher Education Funding (in \$ thousands)							
	2008-09 Actual	2009-10 Actual	2010-11 Budget	2010-11 Available	2011-12 Gov. Budget	Change f/ 2010-11 Available	Percent Change
Community Colleges	\$236,240	\$214,217	\$214,217	\$214,217	\$212,167	-\$2,050	-1.0%
ARRA - Fiscal Stabilization - Higher Education	-	\$21,524	\$21,524	\$21,524	-	-\$21,524	-100.0%
Total - Community Colleges	\$236,240	\$235,741	\$235,741	\$235,741	\$212,167	-\$23,574	-10.0%
Transfer to Community College Capital Fund	\$44,506	\$46,369	\$46,369	\$46,369	\$46,369	-	0.0%
State System of Higher Education	\$497,168	\$465,267	\$465,197	\$465,197	\$232,599	-\$232,598	-50.0%
ARRA - Fiscal Stabilization - Higher Education	\$27,068	\$38,158	\$38,158	\$38,158	-	-\$38,158	-100.0%
Total - State System of Higher Education	\$524,236	\$503,425	\$503,355	\$503,355	\$232,599	-\$270,756	-53.8%
Thaddeus Stevens College of Technology	\$10,293	\$8,550	\$8,550	\$8,550	\$9,788	\$1,238	14.5%
ARRA - Fiscal Stabilization - Higher Education	\$407	\$2,326	\$2,326	\$2,326	-	-\$2,326	-100.0%
Total - Thaddeus Stevens	\$10,700	\$10,876	\$10,876	\$10,876	\$9,788	-\$1,088	-10.0%
State Related Universities (Penn State, Pitt, Temple, and Lincoln)	\$657,159	\$657,159	\$657,159	\$657,159	\$334,638	-\$322,521	-49.1%
ARRA - Fiscal Stabilization - Higher Education	\$35,377	\$31,218	\$31,218	\$31,218	-	-\$31,218	-100.0%
Total - State Related Universities	\$692,536	\$688,377	\$688,377	\$688,377	\$334,638	-\$353,739	-51.4%
Non-State Related Universities and Institutions	\$27,447	\$2,074	-	-	-	-	NA
Total Higher Education State Funding	\$1,472,813	\$1,393,636	\$1,391,492	\$1,391,492	\$835,561	-\$555,931	-40.0%
ARRA - Fiscal Stabilization - Higher Education	\$62,852	\$93,226	\$93,226	\$93,226	-	-\$93,226	-100.0%
Total - State System of Higher Education	\$1,535,665	\$1,486,862	\$1,484,718	\$1,484,718	\$835,561	-\$649,157	-43.7%

The proposed budget decimates the state's higher education institutions. Funding for the 14 colleges that comprise the State System of Higher Education is cut by 50% from \$465.2 million to \$232.6 million. Penn State is cut by 48% from \$318.1 million to \$165.1 million, while the University of Pittsburgh, Temple and Lincoln University all sustain cuts of 50%.

Community colleges fare only slightly better. The state budget fails to replace \$21.5 million in ARRA funding and cuts the state appropriation by \$2 million for a total reduction of 10%.

Agriculture and Environmental Programs

Agriculture

The General Fund budget for the Department of Agriculture is reduced by \$5.3 million, or 5.7%, from 2010-11 spending levels. State support for conservation districts is reduced and funding for a number of programs, including agriculture research, livestock and agriculture shows, crop insurance, and hardwood promotion, is proposed to be eliminated.

Conservation and Natural Resources

Total funding and total state dollars for the Department of Conservation and Natural Resources (DCNR) both increase slightly in 2011-12, as funding for the state parks and forests are shifted “off budget.” General Fund support for DCNR decreases by \$24.1 million, or 29.3%. Operating funds from the General Fund for state parks and forests decrease by more than a third from 2010-11. The budget includes \$15 million in new funding for state parks from the Oil and Gas Lease Fund, but total operating dollars for the parks still decline.

Environmental Protection

The Department of Environmental Protection (DEP) sees an overall funding cut of \$160 million, most of which is a decrease in federal funding. More than \$110 million of the decline in federal funding is due to the expiration of a temporary energy grant program that was part of ARRA. General Fund support for DEP totals \$138 million, a decrease of \$7.3 million, or 5.0%, from 2010-11. General government operations are cut by \$2 million, or 16.1%. Environmental program management, black fly control, and state support for river basin commissions are also reduced.

Expenditures from the Growing Greener Fund — which provides grants for local park and recreation area improvements, open space preservation, and public access upgrades for rivers, lakes, and game lands — are expected to decrease in 2011-12 as available voter-approved bond funding declines.

Public Welfare

Total state funding for the Department of Public Welfare (DPW) is increased in 2011-12 to \$11.2 billion. Medical Assistance and Long-term Living saw the largest funding increases, while mental health, intellectual disabilities and child development programs saw more modest increases. Funding for cash assistance and a number of other smaller programs were cut.

Public Welfare Funding (in \$ thousands)								
	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Budget	2010-11 Available	2011-12 Gov. Budget	Change f/ 2010-11 Available	Percent Change
Public Welfare	\$9,463,186	\$9,426,357	\$8,576,965	\$8,607,243	\$8,858,582	\$11,212,103	\$2,353,521	26.6%
ARRA - FMAP	0	\$1,176,400	\$1,834,729	\$1,833,121	\$1,745,792	0	-\$1,745,792	-100.0%
Total DPW w/FMAP	\$9,463,186	\$10,602,757	\$10,411,694	\$10,440,364	\$10,604,374	\$11,212,103	\$607,729	5.7%

Over the past two fiscal years, DPW programs have been heavily dependent on temporary FMAP funds provided by ARRA. State funding in this budget is increased to replace federal funds, although in many programs the increase was not sufficient to fully offset the loss of

ARRA dollars. In addition, the DPW General Fund line includes \$324 million in Tobacco Settlement Funds not included in prior years.

The budget presentation by Acting Secretary Gary Alexander offered a new set of priorities guiding the spending plan, including short-term cost savings, greater accountability for funds and longer-term spending reductions. The proposed budget does not eliminate optional services or cut enrollment in most programs, as many had feared. The program changes and public statements indicate that all programs will be more thoroughly reviewed for next year. As a result, DPW programs may be more targeted to the very poor and redesigned to focus on short-term assistance and self-sufficiency.

Medical Assistance (MA)

Enrollment in MA is projected to increase in 2011-12 by 4.5% to 2,273,555 Pennsylvanians. Overall state funding for MA is \$5.2 billion in the budget plan, reflecting the expected increase in enrollment and additional utilization costs. It also reflects a significant increase in state funding to make up for lost FMAP funding.

State funding for Medical Assistance - Outpatient would be increased by \$234 million while total funding would increase by \$37 million to \$2.037 billion. State Medical Assistance - Inpatient funding would rise in total by \$114 million, reflecting an increase in the health information technology appropriation. Medical Assistance - Capitation funding from the state would increase by \$965 million and include a \$130 million increase in managed care payments. Payments to the federal government through the Medicare Prescription Drug Program would increase \$271 million.

Due to offsets in other payments, however, hospitals would see a cut in Medicaid reimbursement payments. According to the Hospital and HealthSystem Association of Pennsylvania, hospitals would see Medicaid payments cut by more than \$333 million — \$150 million in state funds and \$183 million in federal matching funds. These funding cuts are largely in supplement payments to hospitals with a high share of Medicaid patients.

Long-term Living

State General Fund dollars would increase by \$547 million for Long-term Living Programs, but part of that reflects a shifting of tobacco settlement dollars into the General Fund to pay for these programs. When Tobacco Settlement and Lottery Funds are considered, Long-term Living sustains a cut of \$103 million.

State funding for Services to Persons with Disabilities is increased by 17% to \$136 million, while attendant care funding was trimmed slightly to \$103 million.

Cash Assistance and Supplemental Security Payments

Enrollment in cash assistance programs is projected to increase slightly in 2011-12 to 256,005. Funding for cash grants, however, was cut by 10% to \$249 million. Funding for Supplemental Security Payments to the blind, elderly and people with disabilities increased slightly to \$150 million to meet an expected uptick in caseloads.

County Assistance Offices are cut by 2% to \$265 million. Funding for the TANF job training and support program — New Directions — was just about cut in half to \$17 million.

The budget reflects DPW's new orientation toward Work First and tighter timeframes for receiving services.

Mental Health

The mental health services line increased by 3% to \$718 million. The bulk of the increase is the result of expiring ARRA funds, the disappearance of other federal funds and increased operational expenses. The total with all state and local funds is \$993 million, \$4 million less than 2010-11.

The Behavioral Health Services Initiative is essentially flat-funded at \$52 million (which incorporates a \$1 million midyear budgetary freeze).

County Child Welfare and Other Human Services

County child welfare programs sustained a 2% cut, with total funding at just over \$1 billion. Child support enforcement was cut by 5% to about \$14 million.

Rape crisis, domestic violence, homeless assistance, legal aid and breast cancer screenings were flat-funded at 2010-11 budgetary freeze levels.

The budget zeroes out more than \$23.5 million provided through the Human Services Development Fund (HSDF) to give counties flexible funds for human services such as adult day care, home delivered meals and transportation services. This cut will create a huge burden for the counties.

Child Care and Early Intervention

State funding for early intervention (0 to 3 years old) saw a 14% increase, with funding at \$118 million. State funding for child care services for working families is flat-funded at \$172 million, but the budget does not fully restore ARRA funding, creating a cut of about \$14 million in total. Child care funding for TANF recipients was increased slightly to \$190 million. Pennsylvania

Nurse Family Partnership Program was flat-funded, and \$6 million in funding for community-based family centers was eliminated.

Intellectual Disabilities Programs

The state expects to provide community intellectual disability and autism services to 54,638 Pennsylvanians in 2011-12. State funding for Mental Retardation (MR) services is increased by 24% to \$1.3 billion, with the bulk of the increase making up for lost ARRA funds. The Community-based waiver program shows a reduction of \$16 million. Autism funds were cut by \$6 million to \$29.3 million.

DPW Employee Complement

Of the 1,550 in eliminated state employee jobs in this budget, 1,211 are in the Department of Public Welfare. Of those, 774 are in mental health services. This number includes 400 state hospital positions that the Governor proposes to privatize, with another 200 vacant positions that will not be filled.

Another 168 positions in the county assistance offices would be eliminated, along with 113 positions in the Youth Development Institutions and Forestry Camps.

DPW Cost Savings Initiatives

The DPW includes a number of new cost-savings initiatives that will be fleshed out in the weeks to come. These include:

Medical Assistance Outpatient: \$14.8 million in savings from reductions in optional dental and pharmaceutical benefits. The Acting Secretary indicated that optional services will be reviewed and limited this year rather than eliminated. Smart Purchasing would transfers non-residential drug and alcohol treatment to managed care.

Medical Assistance Capitation: \$38 million reduction in provider payment incentives and other changes. \$29 million in savings in optional dental and pharmaceutical services.

Transportation

The Department of Transportation's total state and federal funding in 2011-12 declines by \$207 million, or 3.2%. This is due largely to a decline in temporary federal assistance for highway projects.

Roads and Bridges

The 2011-12 budget spends more state dollars on highway construction and repair than the 2010-11 budget, but less than was spent in 2009-10. The state's expanded highway and bridge

program was reduced from \$465 million in 2009-10 to \$165 million in 2010-11. Over \$140 million additional state dollars have been plugged into highway maintenance programs, but not enough to overcome the 2010-11 highway and bridge funding reduction.

Public Transit

Like highways, public transit funding receives a slight increase in funding from 2010-11, going from \$937 million to \$940 million. In 2008-09, the state provided nearly \$1.1 billion in public transit funding.

Community and Economic Development

The Governor is proposing to cut General Fund support for the Department of Community and Economic Development to \$224 million. This would represent a funding reduction of \$104 million, or 31.7% from 2010-11.

Included in this reduction are the elimination of funding for housing and redevelopment assistance and the Pennsylvania Housing Finance Agency’s homeowners emergency mortgage assistance program. Funding is also eliminated for number of the Commonwealth’s traditional WAM programs, including urban development, community and business assistance, economic growth and development assistance, and community conservation and employment. The budget also does away with programs designed to help specific industries, such as zoo tourism, powdered metals and rural leadership training.

The Governor plans to combine and repurpose the opportunity grant, customized job training, and infrastructure development programs into a single “Pennsylvania First” program to serve as a one-stop shop for assistance for businesses. Amid the program cuts, a new program called “Discovered in PA, Developed in PA” is being proposed to help smaller businesses access services and financing on a regional basis.

Public Safety: Corrections, Probation & Parole, State Police

Public Safety Funding (in \$ thousands)								
	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Budget	2010-11 Available	2011-12 Gov. Budget	Change f/ 2010-11 Available	Percent Change
Corrections	\$1,600,181	\$1,605,505	\$1,592,937	\$1,693,956	\$1,694,319	\$1,880,810	\$186,491	11.0%
ARRA - Fiscal Stabilization - Corrections	0	0	172,911	172,911	172,911	0	-172,911	-100.0%
State Police	\$180,882	\$182,305	\$180,150	\$175,568	\$175,568	\$185,578	\$10,010	5.7%
Probation and Parole	\$109,382	\$111,605	\$114,902	\$120,531	\$120,578	\$128,115	\$7,537	6.3%

Corrections

The proposed budget reflects the Governor's interest and background in public safety. The biggest expenditure is the Corrections budget, which will grow by \$186.5 million from \$1.7 billion to \$1.9 billion dollars. The proposed budget fully restores \$173 million in temporary ARRA funding that expires in June 2011.

Additional expenditures include \$68.5 million to house 1,260 new inmates in housing units located at four institutions and at community facilities. 2,100 inmates temporarily housed in Virginia and Michigan would be returned to Pennsylvania prisons for a savings of \$29.6 million.

Patient medical care will increase by \$1 million to \$244 million. This expenditure includes a \$4.6 million continuation of the 2011 budgetary freeze and \$5 million savings in inmate hospital care. These reductions are offset by a \$9.6 million increase in contracted care and pharmacy costs.

Probation and Parole

Total funding for the Board of Probation and Parole will increase from \$142.1 million to \$149.1 million, including an increase of \$7.3 million for supervision of offenders. \$3.4 million will fund additional parole officers.

State Police

The Pennsylvania State Police are funded in two areas, the General Fund and the Motor License Fund. The budget proposes to increase the State Police complement to 4,429 by the end of the 2011-12 fiscal year.

The General Fund appropriation will increase by \$10 million from \$175.6 million to \$185.6 million, and the Motor License Fund appropriation will increase by \$31.6 million from \$533.5 million to \$565.1 million.

Other Public Safety

In the General Fund, municipal police training will be reduced very slightly, while the gun check line is level-funded at \$2.3 million.

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