



# Analysis: Final Budget Fails to Make Up Lost Ground

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## Overview

The Pennsylvania Legislature has approved a 2013-14 state budget ([House Bill 1437, PN 2198](#)) that spends \$28.376 billion, roughly \$645 million (or 2.3%) more than in the 2012-13 fiscal year. Governor Tom Corbett signed the budget into law late in the evening of June 30, 2013. Overall, the plan is \$64 million less than the Governor proposed in February, reflecting nearly \$113 million in reduced spending for public school pensions and school employees' Social Security payments along with a shift of \$90 million in General Fund spending off budget to other funds.

The plan includes a small increase to basic education funding, \$122.5 million overall, with \$30.2 million allocated to 21 school districts through a supplemental allocation, on top of the \$90 million increase in the Governor's proposal.

After many years of cuts, most programs received small increases in the Governor's proposed budget, which remained in the final plan.

Changes to pension benefits for current employees, the cornerstone of the Governor's original budget proposal, did not occur. The Legislature does not

seem inclined to tamper with benefits for current employees. A proposal to move to a 401(k)-style retirement plan for new employees gained traction later in the session but was not adopted. This proposal may return in the fall.

2012-13 General Fund Summary (in \$ Millions)					
	2012-13	2013-14 Gov.	2013-14 Final	Change from 2012-13	% Change
General Fund	\$27,731	\$28,440	\$28,376	+\$645	2.3%

Also abandoned was an \$800 million education initiative to be funded through the sale of state liquor stores. While the privatization vs. modernization debate held center stage until the last week of the session, the school funding component was quickly abandoned and was not part of legislative proposals. Privatization is likely to be considered in the fall, as well.

For the first time in two years, there were no major cuts to services for vulnerable Pennsylvanians; however, a bill that would expand Medicaid coverage in 2014, a state option under the federal Affordable Care Act, was left undone. Legislation including the Medicaid expansion won bipartisan support in the Senate, but the House stripped out the expansion provision from the bill. When the bill returned to the Senate, a last ditch effort to restore the Medicaid expansion provision failed in a dramatic Senate committee vote on July 3.

A transportation funding package that would repair crumbling infrastructure and give a much needed shot in the arm to Pennsylvania's flagging job growth failed to pass the House, despite overwhelming support in the Senate.

## Tax Changes

Governor Corbett proposed a very costly business tax plan in February, which included a multi-year phase down of the corporate net income tax (CNIT) and several other business tax breaks, as well as the elimination of underused tax credits and beefed up reporting requirements. The tax plan that passed the General Assembly looks quite different: (1) It makes no reduction to the CNIT, 2) It maintains the capital stock and franchise tax, which was set to expire at the end of 2013, for two more years (at lower rates than in 2013), and 3) For the first time, it takes steps to close the Delaware loophole — although not until 2015. These changes will provide some additional revenue to support schools, health care, and other critical state needs.

The tax bill is filled, however, with new special interest tax breaks for private aircraft owners, banks, gas drillers, satellite TV providers, and wireless companies like Verizon and Sprint. These items were added at the last minute, in some cases with no public debate.

Overall, the measures are expected to increase tax revenue by only \$52 million in 2013-14 and \$162 million in 2014-15 (with no data on the future impact). While this is a modest improvement, it leaves a great deal of money on the table and weighs the Tax Code down with more special interest tax breaks that will drain revenue for years to come.

[Read PBPC's overview of the Tax Code bill to learn more.](#)

## Public Education

### Basic Education

The 2013-14 budget plan adds \$22.5 million in funding to the basic education subsidy line over the House proposal and \$32.5 million over what Governor Corbett proposed in February. The total General Fund allocation for the basic education subsidy will increase by \$122.5 million, or 2%, from 2012-13 to \$5.526 billion. The Fiscal Code bill, which is still pending before the House, gives the state authority to spend an additional

Education Funding (in \$ millions)					
	2012-13 Available	2013-14 Budget	\$ Change	% Change	% Change Since 2010-11 <sup>I</sup>
Dept. of Education <sup>II</sup>	\$10,820	\$10,548	+\$272	+2.6%	-1.4%
PreK-12 Education	\$9,682	\$9,947	+\$266	+2.7%	+0.4%
Classroom Funding <sup>III</sup>	\$5,506	\$5,629	+\$123	+2.2%	-10.8%
Higher Education <sup>IV</sup>	\$1,198	\$1,203	+\$5	+0.4%	-20%

\$7.4 million in unused state funds to increase the basic education subsidy by a total of \$129.9 million.

While the funding increase is welcomed, it is still less than the approximately \$160 million needed for mandated pension cost increases at the school district level in 2013-14 – meaning fewer dollars for classrooms. Overall, the plan retains [81% of the state cuts to public school classrooms](#) enacted in 2011.

A quarter of the basic education increase, the \$30 million added by the General Assembly, will be distributed to only 21 school districts, while the rest of the increase will be allocated to all 500 school districts.

21 School Districts Receiving Basic Education Funding Supplements					
School District	County	2013-14 BEF Supplement	School District	County	2013-14 BEF Supplement
Midland Boro	Beaver	\$250,000	Lebanon	Lebanon	\$1,041,073
Reading <sup>v</sup>	Berks	\$1,500,000	Allentown City	Lehigh	\$8,000,000
Penns Valley Area	Centre	\$500,000	Hazleton Area	Luzerne	\$1,000,000
Coatesville Area	Chester	\$500,000	Pocono Mountain	Monroe	\$2,000,000
Philipsburg-Osceola Area	Clearfield	\$500,000	Stroudsburg Area	Monroe	\$1,500,000
Southeast Delco	Delaware	\$438,970	Austin Area	Potter	\$250,000
William Penn	Delaware	\$561,030	Dover Area	York	\$500,000
Upper Darby	Delaware	\$2,500,000	Northeastern York	York	\$200,000
Iroquois Area	Erie	\$497,648	West York Area	York	\$160,000
Union City Area	Erie	\$502,352	York City <sup>vi</sup>	York	\$5,448,286
Lancaster	Lancaster	\$2,410,641	<b>Total</b>		<b>\$30,260,000</b>

Of the total increase in the Basic Education Subsidy, nearly \$11 million will go to the state's eight fiscally distressed school districts.

Additional Basic Education Allocations for Distressed School Districts					
School District	County	Status	2013-14 Total BEF	Change from Gov Proposed	Increase From 2012-13
Duquesne City	Allegheny	Recovery	\$8,568,333	\$3,452	\$66,470
Wilkesburg Boro	Allegheny	Watch	\$7,119,276	\$8,978	\$101,520
Aliquippa	Beaver	Watch	\$8,078,129	\$7,136	\$100,856
Reading	Berks	Watch	\$117,641,685	\$1,700,094	\$3,250,603
Harrisburg City	Dauphin	Recovery	\$44,282,950	(\$5,040)	\$485,464
Steelton-Highspire	Dauphin	Watch	\$7,629,852	\$21,299	\$122,907
Chester Upland	Delaware	Recovery	\$59,591,088	\$54,179	\$626,054
York City	York	Recovery	\$56,265,497	\$5,555,229	\$6,181,267
<b>Total</b>			<b>\$309,176,808</b>	<b>\$7,345,325</b>	<b>\$10,935,141</b>

[Read PBPC's overview of the School Code Bill to learn more.](#)

### Other Classroom Programs

Funding for Accountability Block Grants (providing support for pre-kindergarten and full-day kindergarten programs, class size reduction, and tutoring) remains flat at \$100 million, still well below the 2010-11 level of \$254.5 million.

State support of special education remains flat at \$1.027 billion, where it has remained since the 2008-09 budget, forcing districts to pick up a growing share of this continually escalating cost. A

commission has been established to recommend a new special education formula and is expected to issue a report late in the fall.

Funding for Pre-K Counts is increased by \$5 million (5.4%) from 2012-13 to \$87.3 million, and the Head Start Supplemental gets a \$2 million (5.1%) increase to \$39.2 million – consistent with the Governor’s proposal.

Career and technical education is flat funded at \$62 million, while \$3 million added by the House for an equipment fund for technical high schools remains in the final budget. For the first time in years, adult literacy programs get a small funding increase of \$400,000 to just over \$12 million.

A new initiative adds \$8 million to the Office of Safe Schools, for a grant program for public and private schools to add safety equipment and funding for police officers in schools.

### **School Employee Pensions**

The budget spends \$63 million less on public school employee pension benefits and \$49.5 million less on school employees’ Social Security than the Governor proposed. These savings are the result of deep cuts to education that have reduced the ranks of teachers, reading specialists, counselors and other school staff.

Overall, the commonwealth’s contribution for school employees’ pensions increases by \$161 million from the amount paid in 2012-13, accounting for about 60% of the increase in PreK-12 funding and in the entire Department of Education’s appropriation. These contributions will continue to increase in the coming years as the commonwealth copes with the effect of an extended employer contribution holiday and recession-related investment losses.<sup>vii</sup>

### **Passport for Learning**

The Governor had proposed using proceeds from the sale of the state liquor store system to fund a temporary “Passport for Learning” block grant program. Although both the Governor and Legislature made privatization a high priority, this part of the proposal was dropped relatively quickly. The privatization proposal is likely to be brought up again when the Legislature reconvenes in September.

### **Higher Education**

The commonwealth’s higher education institutions — including the 14 campuses of the state system, Penn State and the state-related institutions — saw their funding slashed by 22% in 2011-12. State-related institutions received a modest increase in state funding in 2012-13, but the State System of Higher Education and community colleges were flat funded in 2012-13.

The 2013-14 budget finds modest gains for higher education overall, increasing \$5.2 million, or 0.4%, from 2012-13. The four state-related universities — Penn State, University of Pittsburgh, Temple and Lincoln University — and the University of Pennsylvania’s veterinary and infectious disease programs will get \$4.3 million, or 0.8%, in additional funding. The Governor’s proposal funded these institutions at the same level as in 2012-13.

Penn State’s College of Technology and Lincoln University each receive \$2 million in additional funding, with smaller increases for the University of Pittsburgh’s rural education outreach and Penn. The state’s

general support for Penn State, Pitt, and Temple were not increased from either the Governor’s plan or 2012-13 levels.

The State System of Higher Education universities have been funded at \$412.7 million since 2011-12 and remain unchanged in 2013-14. The Pennsylvania Higher Education Assistance Agency (PHEAA), which offers financial assistance to students in the form of grants, scholarships and work-study awards, is essentially flat funded at \$386.5 million. PHEAA has allocated \$75 million from business earnings to supplement state grants, bringing the total available to \$420 million.

PHEAA is contributing an additional \$10 million in business earnings into a new initiative, a five-year distance learning pilot program that will provide grants to students who pursue a degree online.

## Health and Public Welfare

### Medicaid Expansion

The budget does not include any language or appropriation to allow Pennsylvania to opt into an expansion of Medicaid health coverage as provided for under the federal Affordable Care Act. The Governor’s proposal did not include the Medicaid expansion, although the administration indicated the door is still open. Language authorizing the expansion, with a list of conditions for the operation of the program, was inserted into the Welfare Code bill ([House Bill 1075](#)) by Senator Pat Vance (R-Cumberland), who chaired a Senate workgroup on the issue. The language was stripped out by the House Rules Committee, and a motion to reject the Rules Committee report made by Representative Gene DiGirolamo (R-Bucks) failed on the House floor. The Senate did not take the opportunity to reinsert the language when the bill was returned to that chamber, leaving the issue in limbo for now.

### Medical Assistance

The biggest change in the final budget from the Governor’s February plan is an increase in the state’s Medical Assistance, or Medicaid, Capitation payments, which fund the managed care program. The plan allocates \$3.935 billion, \$104.8 million (3%) more than the Governor’s proposal and \$303.6 million (8%) more than 2012-13. The Capitation line has grown as the commonwealth completes its shift to mandatory managed care this year. The Capitation line includes a rate increase of over 2% for the state’s managed care health providers.

The increase in funding for Medical Assistance Capitation is largely offset by corresponding decreases in inpatient and outpatient costs. Medical Assistance – Outpatient, funded at \$310.6 million, is \$140.3 million (31%) less than 2012-13 and \$58.7 million (16%) less than the Governor proposed. Medical Assistance – Inpatient is funded at \$124.1 million, less than half of the state dollars spent on this program in 2012-13.

Funding for Medical Assistance – Long-term Care is down slightly from what the Governor proposed but \$67.6 million (8.8%) more than 2012-13, rising to \$838.5 million. General Fund dollars used for Home and Community Based Services are reduced by \$41 million, or 22%. It is not clear how this funding is replaced from other sources.

The Governor’s proposed budget shifted about \$18 million in funding for Medical Assistance for Workers with Disabilities (MAWD) from the General Fund to the Tobacco Settlement Fund. The budget reduces this shift by \$10.8 million (or 58%). The \$29.4 million allocated for MAWD from the General Fund is still

\$4.1 million (12%) less than 2012-13. The change is likely due to the Commonwealth Court decision in the adultBasic lawsuit, which held that the commonwealth had to allocate 30% of Tobacco Settlement dollars to adult health insurance programs as stipulated in Act 77 of 2001 (Tobacco Settlement Act).

### Human Services

Governor Corbett proposed significant increases to intellectual disabilities programs, and the Legislature added to the proposed increase. From 2012-13 levels, the increases are as follows: State Centers increase by \$13 million (12%), intermediate care facilities by \$8.8 million (6%), and community waiver services by \$95 million (10%). An increase of \$19.9 million in community waiver services will allow 380 individuals to move from the waiting list. New funding will provide services to 700 students graduating from Special Education and 100 people currently residing in state centers.

Autism intervention and services retains the Governor's proposed \$2.2 million increase, plus an additional \$440,000 added by the Legislature, for a total increase from 2012-13 of \$2.6 million (20%) to \$15.6 million. The new funding in 2013-14 will allow 118 additional individuals to receive services.

Child Care Services for low-income working families is increased by \$7.2 million (5%) over the Governor's proposal to \$155.7 million, a 10% increase over 2012-13, with the bulk of funds supporting the Keystone Stars Quality Improvement program. Savings from consolidation of Child Care Information Services Agencies is retained and will support 1,400 additional subsidy slots. The budget locks in the Governor's \$4 million funding decrease in Child Care Assistance, which provides subsidized child care for families receiving Temporary Assistance for Needy Families (TANF).

Funding for County Child Welfare is down from the Governor's proposed \$1.063 billion, but the needs-based budget will increase by \$15 million (1.4%) over 2012-13, rising to \$1.055 billion.

A 10% funding cut enacted last year to county human services, including Behavioral Health Services, Homeless Assistance, and the Human Services Development Fund (HSDF), remain intact in this budget. The General Assembly rejected the Governor's plan to make the Human Services Development Block Grant statewide, choosing instead to expand the pilot program from 20 to 30 counties and to set additional rules for the selection of the pilot counties.

County assistance offices, which were slated for a reduction and elimination of 200 vacant positions, will instead receive a \$30 million (12%) increase over 2012-13 to \$275 million.

The Legislature cut funding for cash grants by \$4 million (6.6%) from 2012-13 to \$56.7 million. The Governor had proposed flat funding this program, which was cut by over \$150 million in 2011-12. The cut is likely due to declining enrollment.

The allocation for Services to Persons with Disabilities, at \$221.1 million, is \$6.7 million (3%) below what the Governor proposed, but still \$26 million (13%) above 2012-13. The Governor's plan sought to provide Home and Community Based Services to an additional 1,280 people. Attendant Care funding, at \$113 million, is \$2 million (2%) less than the Governor proposed, but \$5 million more than was spent in 2012-13. The Home and Community Based waiver program was reduced by \$41 million from 2012-13, because of revised cost and utilization projections as well as a shift of some costs to non-General Fund dollars.

Funding for Domestic Violence and Rape Crisis services were both increased modestly in the Governor's proposal. Domestic Violence received a total of \$1.4 million (11%) more and Rape Crisis received an additional \$950,000 (14%) in funding over 2012-13. Funding for legal services remains at \$2.5 million, the same level since 2011-12.

## CHIP and Public Health Programs

The budget plan includes a \$9.5 million increase for the Children's Health Insurance Program (CHIP) and a \$3.8 million increase for CHIP administration. The Governor had sought a \$13.5 million increase for CHIP to enroll an additional 9,330 children in the program and adjust for a reduction in federal matching funds. The budget allocates \$111 million, \$4 million less than the Governor's proposal, as enrollment continues to lag behind its peak.

Public health programs in the Department of Health increase \$5.6 million (2.9%) from 2012-13 to \$195.5 million. The final budget includes several notable changes from the Governor's plan. The Governor proposed \$4 million in new funding for grants to community health clinics and an additional \$1 million of funding for expanding loan repayment programs for primary health practitioners. The Legislature approved the funding increase for clinics but eliminated the primary care increase. Funding for a number of programs zeroed out by the Governor (including Lupus, Diabetes programs, and bio-tech research) were restored to their 2012-13 levels by the Legislature.

The Governor's plan to consolidate State Health Centers from 60 to 36 and lay off staff was included as part of the final budget.

## Public Safety and Corrections

The Attorney General's Office will see a \$9 million increase (11.7%) to \$87.3 million, including a newly appropriated \$2.5 million for a mobile street crimes unit and additional funds for Child Predator Interception Units.

Overall Department of Corrections funding is up \$75.2 million (4%) at \$1.9 billion. The biggest component of this is \$1.6 billion for state correctional institutions, which is \$63 million (4%) over 2012-13 levels and \$13.9 million (1%) above the Governor's proposal. Inmate medical care increases by \$9.9 million (4.5%) to \$227.3 million, while inmate education and training is flat funded at nearly \$40 million.

The State Police, which also derives funding from the Motor Vehicle License Fund, gets \$210 million in General Fund dollars, an increase of \$14.8 million (8%) from 2012-13.

Funding for Probation and Parole is up \$9.9 million (7.5%) from 2012-13 to \$141.5 million.

The Pennsylvania Emergency Management Agency is funded at \$17.1 million in the budget, a significant decrease (\$46.5 million, or 73%) from 2012-13. The previous year's budget saw increased funding levels as a result of a string of costly natural disaster relief efforts.

Funds from the closing of the New Castle Youth Development Center have been rolled into a Justice Reinvestment Initiative that will provide \$600,000 to the Pennsylvania Commission on Crime and Delinquency, \$2.45 million to violence prevention programs, and \$2.6 million to Probation and Parole for juvenile probation services.

## State Parks and Environment

The budget plan reduces General Fund dollars for state park operations by \$20 million and state forest operations by \$5 million, shifting those costs to the Oil and Gas Lease Fund. Overall funding will increase by \$2.5 million. Still since 2009-10, General Fund support of the Department of Conservation and Natural Resources has been cut by \$60.6 million, or 67%.

Funding for the Department of Environmental Protection (DEP) is up \$2.9 million (2.3%) from 2012-13 to \$127.7 million. Environmental protection funding has seen a series of cuts over the last several years. While there have been increases in environmental funding from other state funds, these have not been able to make up for the General Fund cuts — meaning decreases in air and water testing, and less ability to protect our environment.

## Agriculture

General Fund dollars for agricultural programs are reduced by \$5.8 million (4.4%) from 2012-13 to \$123.8 million. The plan eliminates \$4.3 million for the Animal Health Commission and reduces general government operations for the Department of Agriculture by \$3.5 million. The Governor had proposed shifting funding of the Animal Health Commission and the Veterinary Lab program (funded out of general government operations) to the Pennsylvania Race Horse Development Fund.

The final budget restores small allocations zeroed out by the Governor for Agricultural Research, Agricultural Excellence, Agricultural Promotion, Education and Exports, and Hardwoods Research and Promotion, among other areas.

## Community and Economic Development

Programs administrated by the Department of Community and Economic Development get an overall \$6.9 million (3%) funding increase over 2012-13 in this plan, which is \$9.2 million (3.7%) less than the Governor proposed in February.

Pennsylvania First, a job creation grant program, gets the biggest boost, with an \$8.3 million (28%) increase in funding to \$37.8 million. A new appropriation of \$7.3 million (not included in the Governor's proposal) will fund the Center for Local Government Services, which provides land use and economic development tools to local government officials and developers. World Trade PA gets an additional \$1.1 million (less than half the increase proposed by the Governor), bringing funding to \$7.3 million.

The budget increases funding for tourism marketing by 28% to \$7.4 million (the Governor proposed flat funding) and more than doubles funding for marketing to attract businesses to \$3.4 million (the Governor proposed a 478% increase in funding).

Transfers to the Municipalities Financial Recovery Revolving Fund and to the Commonwealth Financing Authority were reduced, as was funding for general government operations.

## Legislature, Courts and Governor's Office

Funding for the General Assembly increases by \$4.1 million (1.5%) from 2012-13 to \$277.6 million.



Funding for the courts is up \$8.1 million (2.6%) from 2012-13 to \$317.4 million.

The Governor's Office was essentially flat funded at \$6.5 million, while funding for the Executive Offices is increased by \$16 million (10.2%) from 2012-13 to \$172.9 million. Most of this increase, \$11.3 million, was for technology upgrades.

## More Budget Resources

- [Read PBPC's Analysis of Tax Code Bill](#)
- [Read PBPC's Summary of School Code Bill](#)
- [Read the Latest on Philly School Funding](#)
- [Read the Latest on Medicaid Expansion](#)

## Budget Tables

### Overall Funding

- PBPC: [Department Funding \(Compared to Gov & House\)](#)
- PBPC: [Department Funding \(Compared to Past Years\)](#)
- PBPC: [Line Item Changes from Governor's Proposal](#)
- Senate Appropriations: [All Line Items in 2013-14 Budget](#)

### Education Funding

- PBPC: [Education Highlights](#)
- PBPC: [Classroom Cuts](#)
- House Appropriations: [School District Funding Allocations](#)

### Health and Other Funding

- PBPC: [Health and Public Welfare Highlights](#)
- PBPC: [Highlights: Corrections, Environment, DCED, More](#)

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*The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget and related policy matters, with attention to the impact of current or proposed policies on working families.*

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## Endnotes

<sup>i</sup> 2010-11 state funding including federal ARRA Fiscal Stabilization dollars.

<sup>ii</sup> This is for the preferred and non-preferred appropriations under the Department of Education only. Does not include education-related funding (State System of Higher Education or PHEAA) but does include funding for Penn State, Pitt, Temple, and Lincoln.

<sup>iii</sup> Includes Basic Education (BEF), Basic Education Formula Enhancements, Accountability Block Grants, Educational Assistance Program, and Charter School Reimbursement.

<sup>iv</sup> Includes community colleges, state-related universities (PSU, Pitt, Temple, and Lincoln), the State System of Higher Education, and Thaddeus Stevens College of Technology. The last two are not included in the other Department of Education totals.

<sup>v</sup> The Reading School District's Basic Education Funding (BEF) levels in this table include the district's share (\$1,500,000) of the \$30.2 million allocated as BEF Supplements.

<sup>vi</sup> The York City School District's Basic Education Funding (BEF) levels in this table include the district's share (\$5,448,286) of the \$30.2 million allocated as BEF Supplements.

<sup>vii</sup> This accounting shortfall was created by a combination of investment losses during the recession and nearly a decade-long employer "holiday" where the state and school districts paid less into the fund than was expected.