



## **Budget Analysis**

# **House Republican 2011-12 Budget Plan**

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## **Overview**

The Pennsylvania House Republican Caucus introduced a 2011-12 state budget proposal<sup>i</sup> on May 10 that is consistent with the principles communicated by caucus leaders over the past few months. It spends only \$27.3 billion, the initial spend number proposed by Governor Tom Corbett, and leaves untouched a \$506 million accumulated revenue surplus.

The House budget incorporates Governor Tom Corbett's plan to transfer revenue from the Tobacco Settlement Fund into the General Fund. If Tobacco Settlement Fund dollars are taken out of the equation, the budget spends around \$27 billion, well below 2008-09 levels.

As expected, the plan represents a shift in cuts rather than a restoration of programs. This is evident throughout the budget. For example, the plan restores \$20 million of the \$23 million cut to the Human Services Development Fund — a source of flexible funding for county human services — but cuts the county child welfare line by \$22 million.

Department of Public Welfare (DPW) programs, including Medical Assistance, County Child Welfare and Behavioral Health, are cut by \$471 million from the Governor's March proposal.

Higher education programs receive \$370 million above the Governor's proposal, but the funding restorations are not uniform. The State System of Higher Education would still receive a 15% total cut from 2010-11 under the House plan. Penn State would see a 21% cut, and the State-related Universities would see cuts of 25%. Despite restoring some of the Governor's cuts, this plan would reduce current year higher education funding by \$269 million.

Only \$243 million of the \$1.2 billion in cuts to public schools are restored. The House budget adds back only \$100 million of a \$550 million cut to the basic education subsidy and \$100 million of \$259 million in Accountability Block Grant funding eliminated in the Governor's budget. The House plan leaves intact a \$224 million cut to the charter school reimbursement, which disproportionately hurts low-income urban schools.

## Public Welfare

Table 1. Department of Public Welfare Funding (\$ millions)

	2010-11 Available	2011-12 Gov. Budget	Change from 2010-11 Available	2011-12 House R Budget	Change from 2010-11 Available	Change from Gov. Budget
<b>Public Welfare</b>	\$8,859	\$11,212	\$2,354	\$10,741	\$1,882	(\$471)
<b>ARRA - FMAP</b>	1,746	-	(1,746)	-	(1,746)	-
<b>Total DPW w/FMAP</b>	10,604	11,212	608	10,741	136	(471)
<b>Total DPW w/FMAP and Tobacco Settlement Funding</b>	<b>\$10,840</b>	<b>\$11,212</b>	<b>\$372</b>	<b>\$10,741</b>	<b>(\$100)</b>	<b>(\$471)</b>

Shortly after the Governor’s budget was released, House members indicated displeasure with the apparent growth in the DPW budget. That “growth” was largely a result of two items:

- The state’s payment for the Medicare Part D “clawback” increased by \$271 million, and
- The Governor’s budget shifted \$190 million from the Tobacco Settlement Fund into the DPW budget.

In addition, the state funding line for DPW appeared to increase significantly for many items because the budget had to replace expiring American Recovery and Reinvestment Act (ARRA) funds with state dollars. In most cases, this simply restored funding at or close to pre-ARRA levels.

Nonetheless, the House crusaded against purported fraud and abuse in the DPW budget and made good on a promise to cut funding for programs identified in Auditor General Jack Wagner’s audits, including Medical Assistance (Hospital Inpatient, Fee-for-Service Outpatient and Managed Care Capitation) and Special Allowances, which provides employment and training programs, child care and Medical Assistance Transportation.

Medical Assistance was hit hard: the Inpatient, Outpatient and Capitation programs were cut by a combined \$295 million in state funds; with federal matching funds included, the total cut comes to \$526 million. These cuts will translate into a reduction in enrollment or reduced services. The House budget assumes an error rate of 4.4% in Medical Assistance Capitation, and 11.9% in the fee-for-service program. If you apply the assumed 4.4% error rate to Medicaid enrollment, enrollment would be cut by 96,800. This reduction in health care would come on top of the 41,000 adult Pennsylvanians who lost their adultBasic health care earlier this year.

The House budget appears to have modified the Long-Term Care program line, separating out Home and Community-based Services into a new line of \$452 million. Long-Term Care was reduced by \$315 million, and both the Attendant Care line (\$103 million) and Services to Persons with Disabilities line (\$135 million) were eliminated.

Funding was restored for most hospital supplemental programs, including Burn Centers, Critical Access Hospitals, Trauma Centers, and Academic Medical Centers, all of which draw down federal matching money. But the House also cut \$31.5 million from the Tobacco Settlement Fund's uncompensated care line for hospitals, presumably to free up those dollars for other purposes.

The welfare cash assistance line was cut by an additional 3.4% on top of the Governor's 10% cut. The Medical Assistance Transportation program received a state cut of \$10 million, or about 13%.

Early childhood programs were not spared in this budget. A total of \$38 million was cut for child care services for working families and those enrolled in Temporary Assistance for Needy Families (TANF) who are transitioning to work. The Nurse Family Partnership program was cut by 10%, or \$1.2 million. State funding for Family Centers, which was eliminated in the Governor's budget, was not restored in the House plan. Early Intervention, which received an increase in the Governor's budget, was flat funded.

Most of the programs in the Human Services section of the budget, including Domestic Violence, Rape Crisis, Legal Services, Homeless Assistance and Breast Cancer Screening received cuts of 9.1%.

The Human Services Development Fund (HSDF), which provides counties with flexible funds for adult day care, home delivered meals, transportation and other services, was restored to \$20 million.

A cut to child welfare services was doubled from \$21.8 million to \$43.4 million.

Behavioral health, which was essentially flat funded in the Governor's budget, received a \$4.8 million cut.

Mental health services, which received a \$22.3 million increase under the Governor's plan, will receive a smaller increase, \$18 million, under the House plan.

## Housing Programs

The House budget restores almost \$20 million of the \$23 million cut to the Human Services Development Fund, which is a major source of funding for county-level homeless services. The budget also restores \$7.9 million of the \$11 million cut to the Homeowners Emergency Assistance program (HEMAP).

The House plan makes a few additional cuts to housing programs. The Homeless Assistance line is cut by 9.1% from \$23 million to \$20.5 million. Funding is also cut for the new Keystone Communities program — a combination of Housing and Redevelopment Assistance, New Communities, and Accessible Communities. The Governor's budget reduced funding for this program from \$28 million to \$12.5 million, and the House budget cuts that to \$12 million.

## Education

Table 2. Education Funding (\$ millions)

	2010-11 Available	2011-12 Gov. Budget	Change from 2010-11 Available	2011-12 House R Budget	Change from 2010-11 Available	Change from Gov. Budget
Education (preferred)	\$9,245	\$9,463	\$219	\$9,673	\$429	\$210
Education (non-preferred)	657	335	(323)	519	(139)	184
<b>ARRA - Fiscal Stabilization</b>	1,095	-	(1,095)	-	(1,095)	-
<b>Total Education</b>	<b>\$10,997</b>	<b>\$9,798</b>	<b>(\$1,199)</b>	<b>\$10,192</b>	<b>(\$805)</b>	<b>\$394</b>
<i>Basic Education (state)</i>	\$4,734	\$5,226	\$493	\$5,326	\$593	\$100
<i>Basic Education (ARRA - Fiscal Stabilization)</i>	1,043	-	(1,043)	-	(1,043)	-
<b>Total Basic Education</b>	<b>\$5,776</b>	<b>\$5,226</b>	<b>(\$550)</b>	<b>\$5,326</b>	<b>(\$450)</b>	<b>\$100</b>

### Basic and Special Education

The Governor’s budget cut nearly \$1.2 billion in funds for school districts in five areas:

- Basic Education Subsidy to all school districts: \$550 million—9.5% cut
- Accountability Block Grants: \$259 million—Eliminated
- Charter School Reimbursements to all school districts: \$224 million—Eliminated
- Educational Assistance Tutoring Grants: \$47.6 million—Eliminated
- School improvement Grants: \$10.8 million—Eliminated

The education cuts disproportionately affect low-income school districts, and in many cases, the basic education formula cut is less significant than the other cuts. For example:

Comparing Cuts to Basic Education and Other Education Funding Cuts			
District	Basic Ed Cut	Total of Other Cuts	Total Cuts
Chester Upland SD	\$ 4.3 million	\$ 13.3 million	\$ 16.3 million
William Penn SD	\$ 1.9 million	\$ 2.3 million	\$ 4.6 million
Allentown City SD	\$ 8.1 million	\$ 7.3 million	\$ 15.5 million
Bethlehem Area SD	\$ 2.5 million	\$ 4.2 million	\$ 6.7 million

Source. Pennsylvania Department of Education, Pennsylvania School Funding Campaign

The cuts represent a shift in philosophy regarding how education funds are distributed. Education funding is generally allocated through formulas that take into account poverty, tax effort and other factors; in contrast, education cuts are allocated across the board, so higher-aid-ratio districts get a larger dollar cut.

In the House budget plan, \$43 million is added to the state's contribution to employees' Social Security benefits through a revision to the distribution formula that benefits wealthier school districts. \$100 million of the \$550 million cut is restored for basic education, but the dollars are not evenly distributed, going instead to 353 of 500 school districts. The Corbett Administration has argued that its basic education cuts bring every district back to 2008-09 levels, which was not the case. Adding \$100 million increases funding for these select districts and raises all districts to at least 2008-09 funding levels.

As with the Governor's budget, the House plan flat funds special education for the third year in a row at just over \$1 billion.

### Higher Education

The Governor's budget cut \$649 million for higher education, including:

- Community Colleges: \$23.6 million—10% cut
- State System of Higher Education: \$270.8 million—54%
- Penn State: \$168.8 million—51%
- Other Three State-related Universities: \$185 million—52%
- Thaddeus Stevens: \$1.1 million—10%

The House budget plan restores \$370 million in higher education cuts proposed by the Governor. Still, the State System of Higher Education would receive a 15% total cut from 2010-11, while Penn State would see a 21% cut and the State-related Universities would see cuts of 25%. Despite restoring some of the Governor's cuts, this plan would reduce current year higher education funding by \$269 million.

## **General Government and Executive Appropriations**

Technology programs across the board were cut: Commonwealth Technology Services, the Department of Revenue's proposed technology upgrade and County Assistance Office (CAO) systems all sustained cuts.

General Government Operations were cut by 2.1% in many departments, with DPW taking a 2.3% cut.

The House budget cuts grants to the arts by \$2.5 million, a 70% cut from the Governor's budget of \$8.3 million.

Funding for the Office of Public Liaison, which absorbed the Governor's Commissions on Women, Latinos, and African and Asian Americans, remains the same.

## **Community and Economic Development**

The House budget reduced Department of Community and Economic Development (DCED) programs by an additional \$51 million, from \$224 million to \$172 million, a 22% cut. The House eliminated the Governor's proposed Discovered and Developed in PA program. Tourism marketing is cut 70%. World Trade PA is cut by 53%. Pennsylvania First, which includes Community Conservation (a traditional WAM program) and Customized Job training, is cut by \$20 million.

## Other Departments and Agencies

In the **Department of Corrections** budget, health care for inmates was cut by \$8.2 million, about 3%. Inmate education was cut by \$6.4 million, or 15%. The total increase for Corrections over 2010-11 is 10%.

The only cut to the **State Police** budget was \$2.4 million for gun checks.

In the **Department of Military and Veterans Affairs** budget, the Governor proposed a \$12 million increase for veterans' homes that the House plan trims down to an increase of \$8 million.

The Departments of **Conservation and Natural Resources, State, and Transportation**, along with the **Historical and Museum Commission**, sustained no additional cuts from the Governor's proposed budget in the House budget plan.

The Departments of **Treasury, Health and Insurance** were each cut by less than 1%.

In the **Department of Environmental Protection** (DEP), the House plan cuts Environmental Protection Operations by \$1.7 million and reduces grants for Sewage Treatment facilities by 8.4% — curious choices given the increased demand on DEP resources resulting from gas drilling in the Marcellus Shale.

In the **Department of Labor and Industry**, the budget makes a 6% cut to Occupational Safety and eliminates technical assistance funding for Industry Partnerships.

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<sup>i</sup> House Bill 1485, Regular Session 2011-12,  
<http://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?year=2011&sind=0&body=H&type=B&BN=1485>