

# Commonwealth of Pennsylvania

# 2012-13 Executive Budget

**Tom Corbett**  
*Governor*

**Charles B. Zogby**  
*Secretary of the Budget*

**February 7, 2012**

# 2011-12 General Fund Budget Update

## General Fund Financial Statement

	(Dollars in Millions)	
	2011-12 <u>Enacted</u>	2011-12 <u>Revised</u>
<b>Beginning Balance*</b> .....	\$ 1,073	\$ 1,088
Revenue Estimate .....	27,841	27,841
Revision to Revenue Estimate .....		(719)
Refunds .....	(1,270)	(1,310)
<b>Total Revenue</b> .....	<u>26,571</u>	<u>25,812</u>
<b>Prior-Year Lapses</b> .....	63	195
<b>Funds Available</b> .....	<u>27,707</u>	<u>27,095</u>
Expenditures .....	(27,149)	(27,162)
Budgetary Freeze .....	0	160
<b>Total State Expenditures</b> .....	<u>(27,149)</u>	<u>(27,002)</u>
<b>Preliminary Balance</b> .....	558	93
Transfer to the Rainy Day Fund .....	(140)	0
<b>Ending Balance</b> .....	<u>\$ 418</u>	<u>\$ 93</u>

\* 2011-12 Revised reflects reallocation of prior-year funds for disaster relief.

## Downward Revisions to U.S. Economic Forecasts

*The 2011-12 budget was adopted in June 2011 and was based on economic forecasts available at that time. Since then, most economists – including Global Insight – have significantly lowered their forecasts for economic growth for 2011 and 2012. These downward revisions are consistent with the commonwealth’s below-estimate tax revenue collections during the first seven months of the fiscal year.*

### Global Insight’s Outlook for Fiscal Year 2011-12

*Changes from May to January*

	<u>May 2011</u>	<u>January 2012</u>	<u>% Decline</u>
<b>Real GDP</b>	3.0%	1.8%	- 40%
<b>Consumer Expenditures</b>	4.7%	4.1%	- 13%
<b>U.S. Wages &amp; Salaries</b>	4.6%	3.0%	- 35 %

## 2011-12 General Fund Revenues

*In the first seven months of 2011-12, collections across nearly all revenue categories failed to meet estimates. Revenue collections are now \$497.2 million below estimate.*

	Estimated	Actual	\$ Difference	% Difference
Tax Revenue:	<i>(Dollars in Millions)</i>			
Corporation Taxes	\$ 1,593.3	\$ 1,306.6	\$ -286.7	-18.0%
Consumption Taxes	5,966.5	6,009.4	42.9	0.7%
Sales & Use - Non-Motor	4,527.7	4,529.7	2.0	Less than 0.1%
All Other	1,438.8	1,479.7	40.9	2.8%
Other Taxes	6,593.3	6,367.2	- 226.1	-3.4%
PIT Withholding	4,859.8	4,743.0	-116.8	-2.4%
PIT Non-Withholding	1,026.2	931.6	-94.6	-9.2%
All Other	707.3	692.6	-14.7	-2.1%
Non-Tax Revenue	160.0	132.7	- 27.3	-17.1%
<b>Total</b>	<b>\$ 14,313.1</b>	<b>\$ 13,815.9</b>	<b>\$ - 497.2</b>	<b>-3.5%</b>

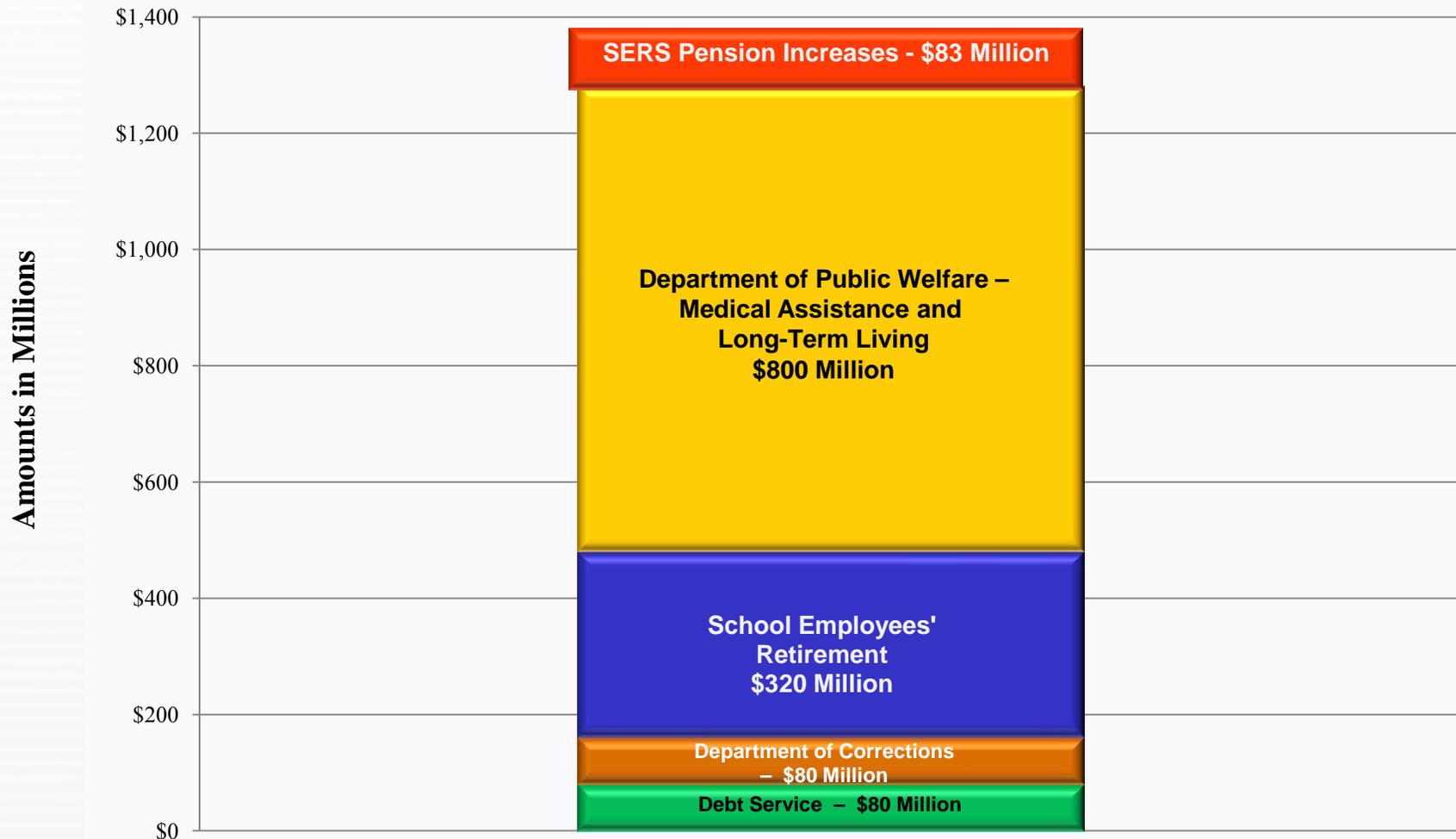
# 2012-13 Budget

## Challenges for the 2012-13 Budget

- Pension cost growth of \$403 million (\$320 million for school employees' retirement and \$83 million in General Funds for state employees' retirement that agencies must absorb)
- Continued growth in debt service before capital spending reforms begin to put costs on a more sustainable path
- Managing growth in Department of Public Welfare spending in light of continued health care cost inflation
- Controlling the growth of corrections costs

## Preliminary Spending Increases in the 2012-13 Budget

*Without cost containment, growth in mandated areas of the budget would have totaled nearly \$1.4 billion*



## 2012-13 Budget Overview

- The 2012-13 budget maintains Governor Corbett's commitment to balance the state budget by keeping spending in line with available revenues and meeting the state's pension obligations without raising taxes.
- Spending in the 2012-13 budget of \$27.14 billion is more than \$20 million below 2011-12.
- Continues the phase-out of the Capital Stock and Franchise Tax and makes other investments and reforms to spur economic growth and job creation.
- Maintains important investments in education, public safety and public welfare.

## General Fund Financial Statement

	(Dollars in Millions)	
	2011-12 <u>Available</u>	2012-13 <u>Budget</u>
<b>Beginning Balance*</b> .....	\$ 1,088	\$ 93
Revenue Estimate .....	27,122	28,153
Proposed Revenue Changes .....	0	242
Refunds .....	(1,310)	(1,335)
<b>Total Revenue</b> .....	<u>25,812</u>	<u>27,060</u>
<b>Prior-Year Lapses</b> .....	195	0
<b>Funds Available</b> .....	<u>27,095</u>	<u>27,153</u>
Expenditures .....	(27,162)	(27,139)
Budgetary Freeze .....	160	0
<b>Total State Expenditures</b> .....	<u>(27,002)</u>	<u>(27,139)</u>
<b>Preliminary Balance</b> .....	93	14
Transfer to the Rainy Day Fund .....	0	(3)
<b>Ending Balance</b> .....	<u>\$ 93</u>	<u>\$ 11</u>

\* 2011-12 Available reflects reallocation of prior-year funds for disaster relief.

## Tax and Revenue Modifications

*The 2012-13 budget proposes several tax and revenue modifications to the General Fund. These modifications impact several existing programs and are proposed as permanent revenue redirections to help balance the commonwealth's budget in future years.*

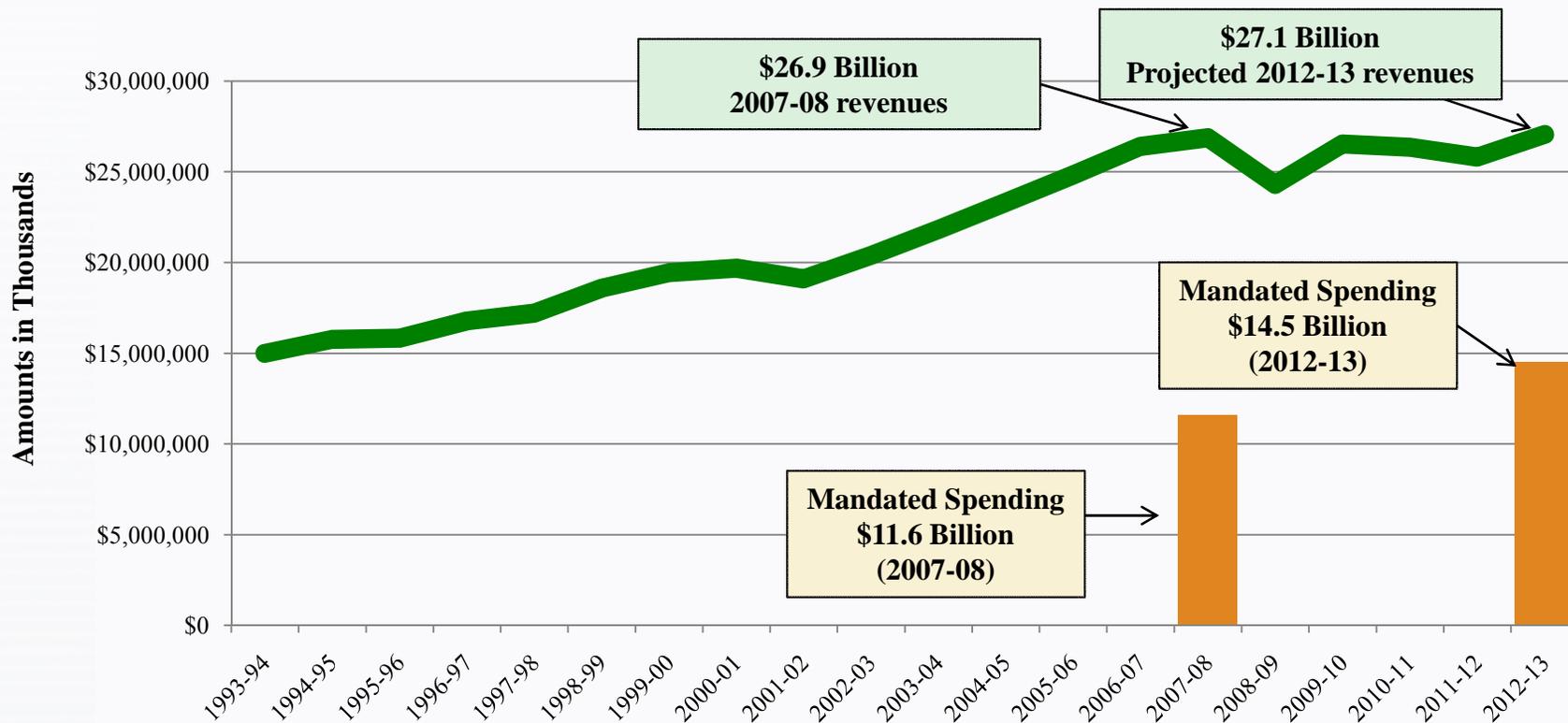
	<b>2012-13 Estimated</b>
<b>Tax Revenue:</b>	<i>(Dollars in Thousands)</i>
Capping of Vendor Sales Tax Discount (\$250/month)	\$ 41,300
Enhanced Enforcement Initiatives	21,600
Eliminate Cigarette Tax Transfer to Farmland Preservation program	20,485
Eliminate Gross Receipts Tax Transfer to Alternative Fuels Incentive Grant Fund	6,500
Enhanced Revenue Collections Account	100,000
<b>Non-Tax Revenue</b>	
Transfer from PHEAA (in lieu of 2011-12 freeze)	13,800
Transfer from Keystone Recreation, Park and Conservation Fund	38,581
<b>Total</b>	<b>\$ 242,266</b>

## Other Modifications to the 2012-13 Budget

- **Pennsylvania Race Horse Development Fund:** The 2012-13 budget proposes to fund several programs out of the Pennsylvania Race Horse Development Fund.
  - Agricultural Research and Extension: \$44.7 million
  - University of Pennsylvania – Veterinary Activities: \$26.5 million
  - University of Pennsylvania – Veterinary Center for Infectious Diseases: \$236,000
  - Payment to Pennsylvania Fairs: \$874,000
  
- **Tobacco Settlement Fund:** The 2012-13 budget also proposes to redirect \$59 million of Tobacco Settlement Fund revenues from the Health Research program to offset long-term care costs in the Department of Public Welfare. All previously approved Health Research projects will continue and will not be impacted by this redirection.

## History of General Fund Revenues

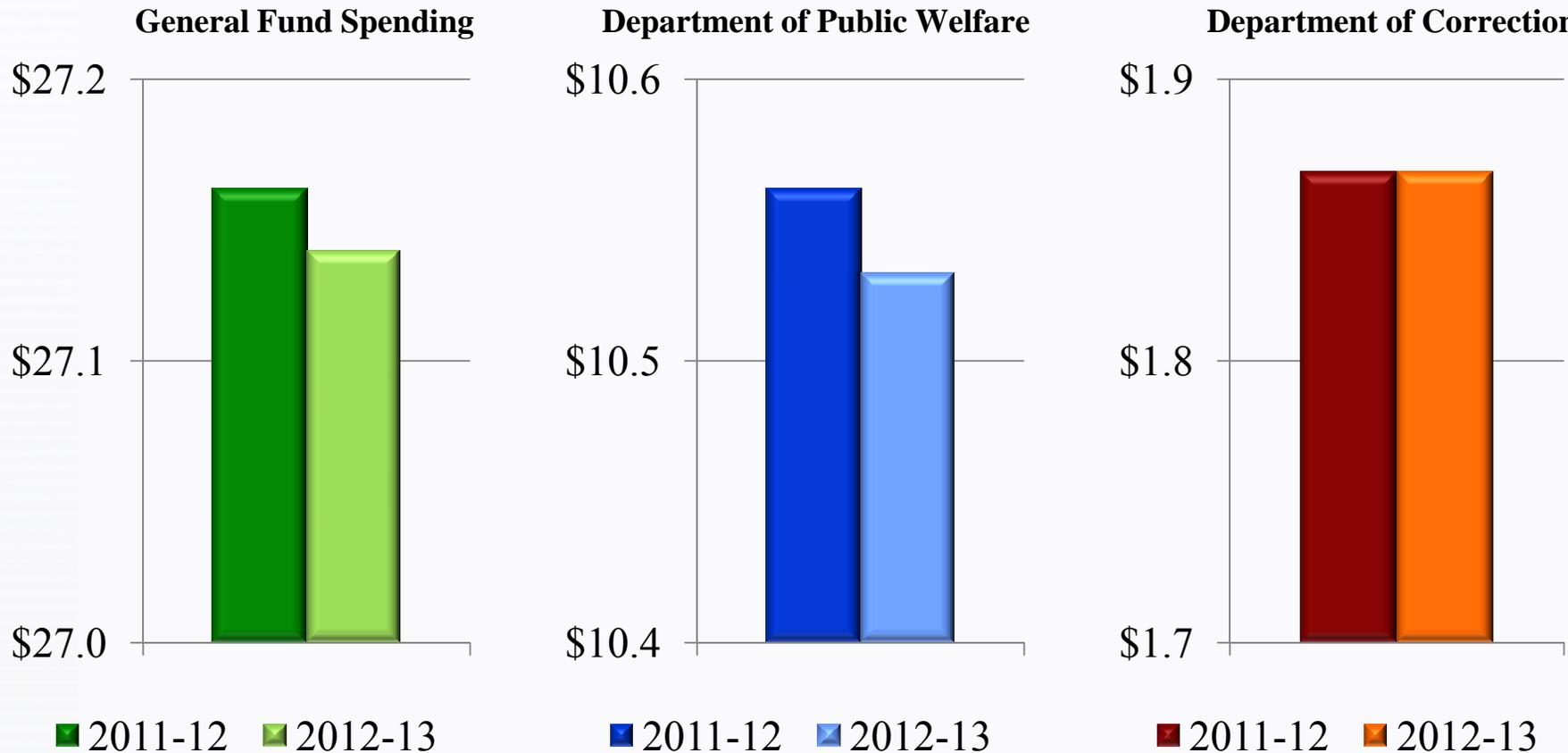
*Illustrating the depth and length of the Great Recession, the 2012-13 fiscal year is projected to be the first time that General Fund revenues will be greater than revenues in 2007-08 – although the 2012-13 projection is a scant \$200 million higher than the 2007-08 revenue total. Over the same period of time, spending in mandated areas of the budget increased by \$2.9 billion, crowding out spending in all other areas of the budget.*



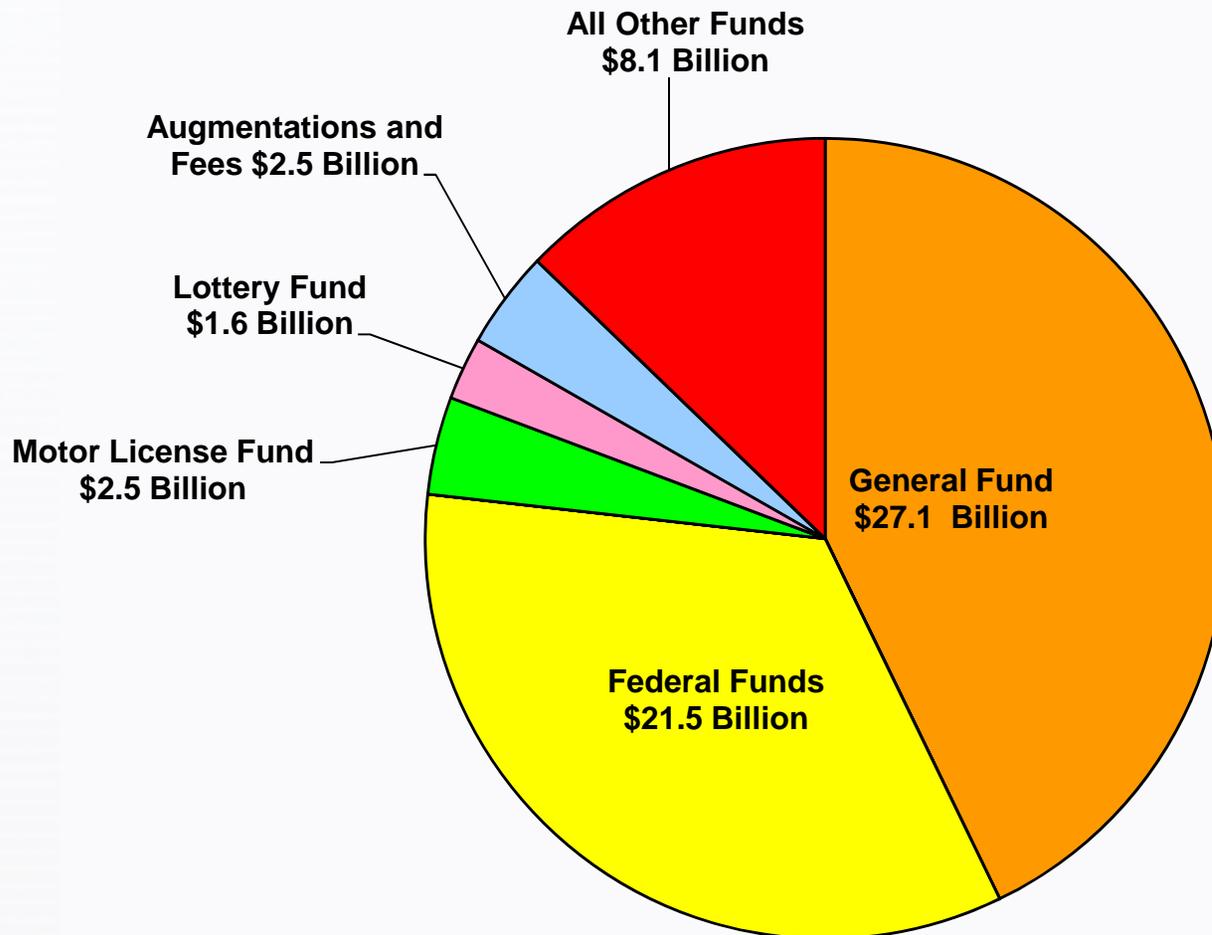
## 2011-12 vs. 2012-13 General Fund Expenditures

### Overview of Projected Total Spending and Key Program Spending

*(amounts in billions of dollars)*



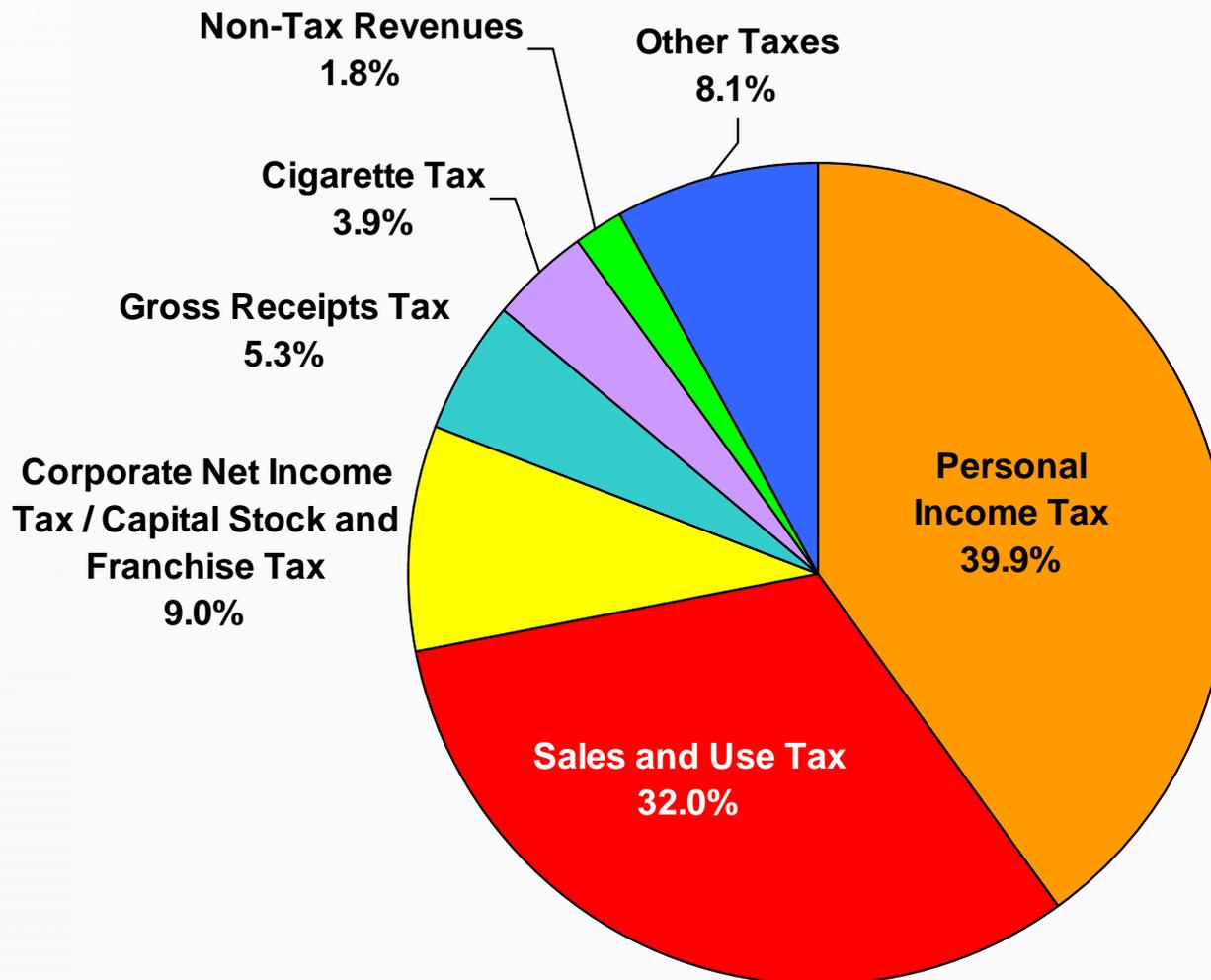
## 2012-13 Total Operating Budget



*The total 2012-13 operating budget, including all commonwealth funds, is \$63.3 billion. The General Fund represents 43 percent of this amount.*

**Total:  
\$63.3 Billion**

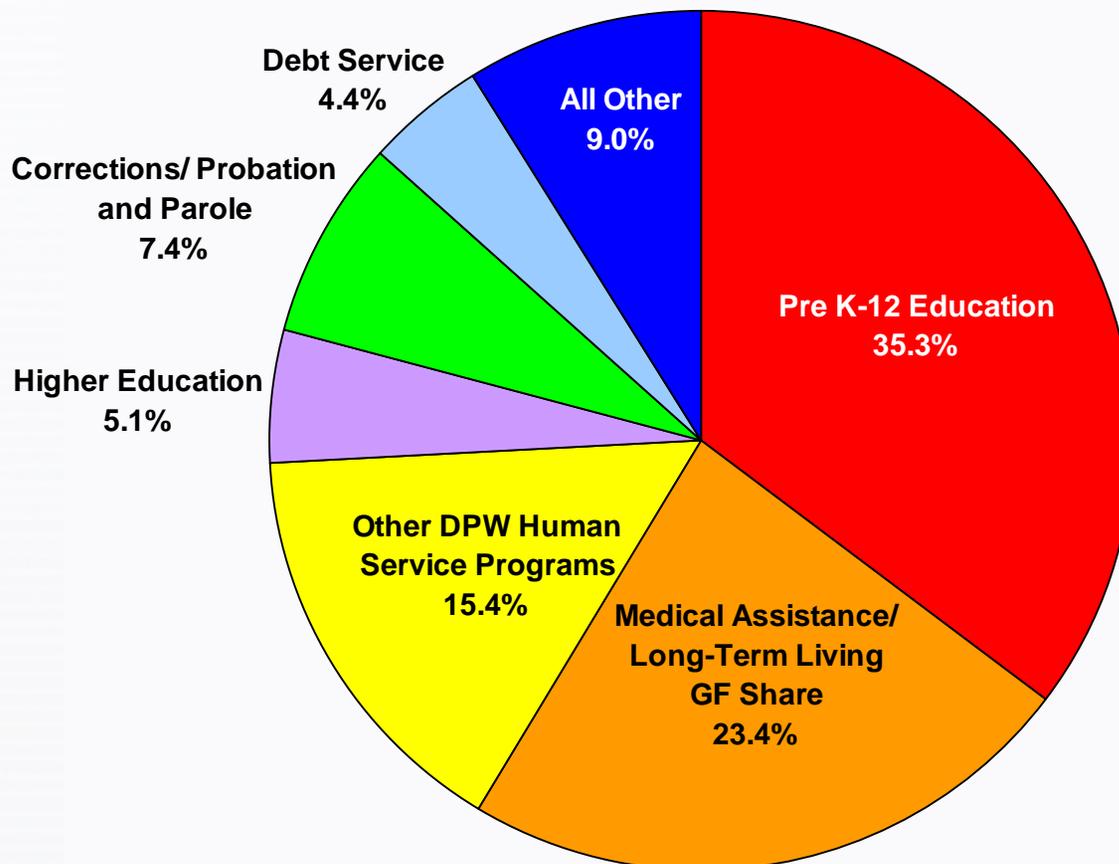
## 2012-13 General Fund Revenue Sources



*More than two-thirds (72 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales and Use Tax.*

## 2012-13 State General Fund Expenditures

*The 2012-13 General Fund budget is \$27.14 billion – a decrease of more than \$20 million, or 0.1 percent, from 2011-12.*



*Spending on Education, Medical Assistance / Long-Term Living, other Human Service programs, corrections and debt service comprises nearly 91 percent of total General Fund obligations.*

**Total General Fund Expenditures:  
\$27.14 Billion**

# On the Path to Prosperity

*Fiscal Discipline and Limited, Effective Government*

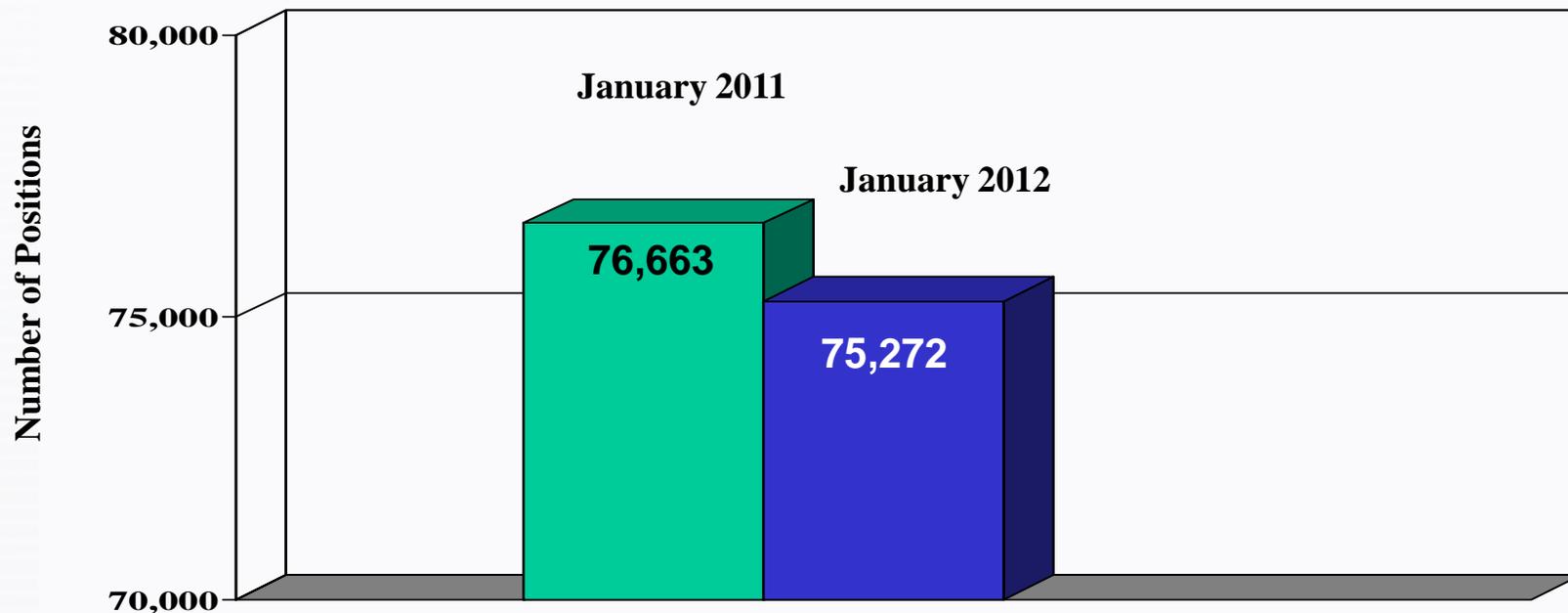
## Fiscal Discipline in the 2012-13 Budget

- Maintains Governor Corbett's commitment to balance the budget by keeping spending in line with available revenues and not raising taxes.
- Restrains state spending \$20 million below the current year and further aligns spending with core functions.
- Reduces administrative spending by an additional 2 percent. Combined with last year's reduction in administrative spending of 4 percent, this means that Governor Corbett has reduced administrative spending by 6 percent in two years.
- Eliminates 33 appropriations and reduces 164 additional line items.
- Eliminates 650 additional positions, largely by eliminating vacant positions.

## Reducing Administrative Spending

*Since Governor Corbett took office in January 2011, filled staffing levels have declined by nearly 1,400 positions, or nearly 2 percent. Additionally, the Corbett administration has implemented significant reforms to the commonwealth's fleet and travel programs to enhance program accountability and reduce costs.*

### Reducing the Size of the Commonwealth's Workforce



## Revisions to the Commonwealth Capital Plan

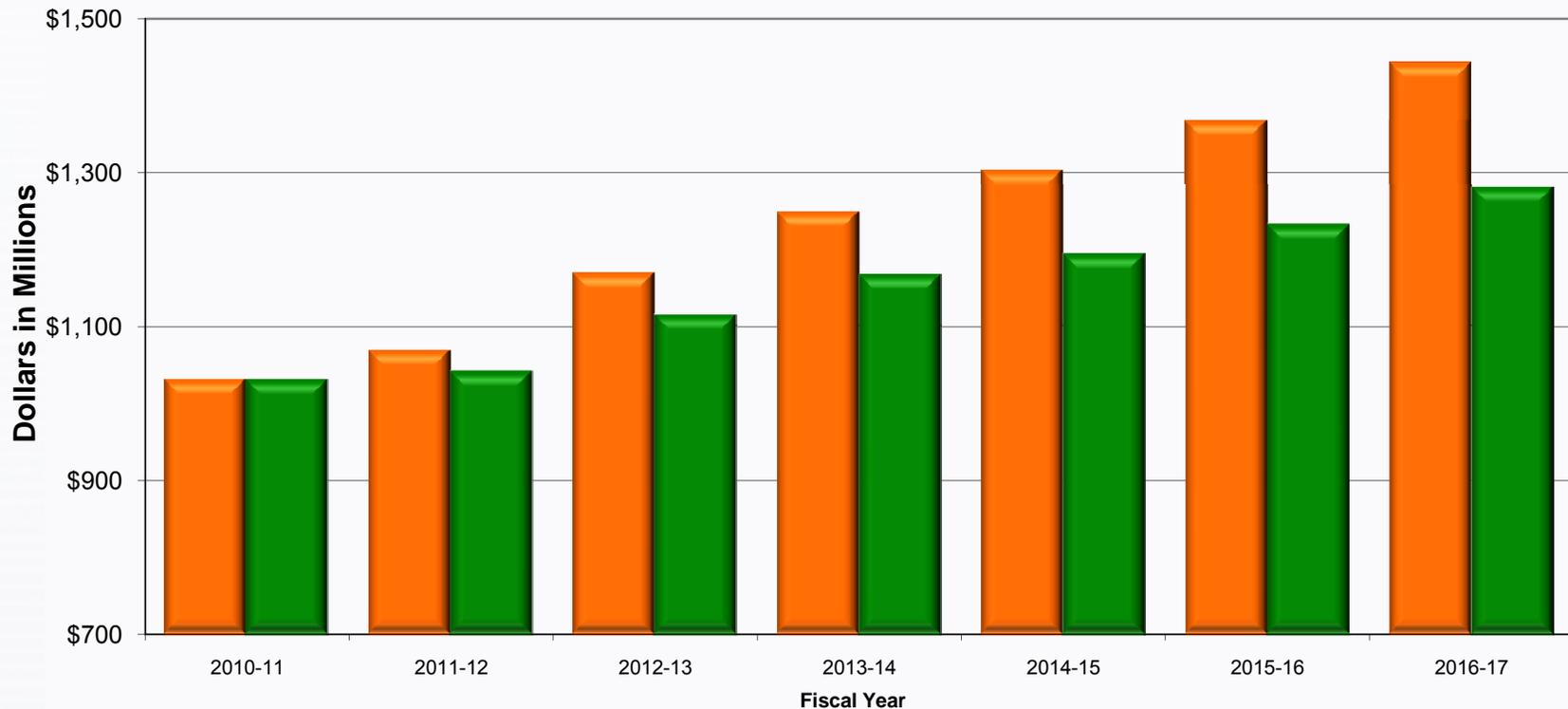
*The 2012-13 budget reflects actions recently taken to better manage commonwealth debt and to bring new debt and debt retirement into better alignment.*

- **Reducing by 50 percent** the level of new Public Improvement Projects for commonwealth-owned buildings and facilities, focusing on the priority infrastructure needs of state assets.
- **Reducing by 50 percent** the level of Higher Education new-project releases that the commonwealth provides to the State System of Higher Education and that the state-related universities may direct to their priorities.
- The Corbett administration is initiating reforms to the **Redevelopment Assistance Capital Program**, prioritizing those projects that will have the greatest impact on Pennsylvania's economy and job creation, and infusing greater transparency and accountability into the program.

## Revisions to the Commonwealth Capital Plan

*The administration's plans to reduce debt issuance are projected to reduce debt service costs by more than \$500 million over six years.*

### Debt Service on General Obligation Debt



- Projected General Fund debt service costs with no reduction in planned debt issuance
- General Fund debt service costs with reduced debt issuance

## Limited and Effective Government

*The 2012-13 budget continues to streamline government through mergers and consolidations of programs and agencies, or realignments for greater synergies.*

- **The State Tax Equalization Board and the Public Employee Retirement Commission** will be consolidated within the Department of Community and Economic Development's Center for Local Government Services. These consolidations will save nearly \$300,000.
- **The Securities Commission** will be merged with the Department of Banking to streamline administrative functions and save nearly \$1 million.
- **The Pennsylvania Health Care Cost Containment Council and the Patient Safety Authority**, two health data and information operations, will be integrated with the Department of Health to better utilize health information for public policy purposes.

## Limited and Effective Government

- **The Commission on Crime and Delinquency** will take on a coordinating role for criminal justice research projects with the staff of the Department of Corrections and the Board of Probation and Parole. Long-term cost savings are anticipated.
  
- **The Department of Revenue** will reduce administrative costs through two initiatives:
  - a reduction in the threshold for Electronic Fund Transfers from \$20,000 to \$10,000 (estimated savings of \$100,000) and
  - a repeal of the Certified Mail Assessment Requirement (estimated savings of \$750,000).
  
- **Merit system modernization and reform** will streamline the human resources system in the commonwealth and align employee recruitment, selection, development and retention operations. This budget assumes the pursuit of merit system modernization and reform to provide greater quality, efficiency and effectiveness of state government

## Support Free Enterprise and Job Creation

- **Capital Stock and Franchise Tax** – The budget maintains Governor Corbett’s commitment to eliminate this tax. In January 2013, the tax rate will drop to 0.89 mills, and the tax will be eliminated entirely in January 2014.
- **Comprehensive Job Matching System** – The budget continues support for a new workforce development system that will dramatically improve job search capabilities by adding sophisticated “spidering” technology linked to numerous job posting engines.
- **Keystone Works** – The budget provides \$2.5 million to facilitate the rapid return to work for recently unemployed individuals. Keystone Works will provide employer-driven training opportunities for unemployed workers.
- **Targeted Industry Cluster Certificate Program** – In partnership with the Pennsylvania Higher Education Assistance Agency (PHEAA), the Corbett administration will create a Targeted Industry Cluster Certificate Program for certain high-priority occupations. In the first year, the budget recommends \$5 million targeted to the energy, agriculture and building and construction industry clusters.

## Streamlining Business Incentive Programs to Ensure Job Creation

- **JOBSFirst PA** invests in job creators by blending a tax reform agenda with entrepreneurial initiatives and investments in critical growth infrastructure.
  - **Startup PA** ~ Startup PA will leverage national resources to supplement Pennsylvania’s existing entrepreneurial initiatives.
  - **Innovation Marketplace** ~ The Innovation Marketplace portal will allow small companies to quickly find and investigate new technologies, startups to promote technologies to manufacturers and investors, and manufacturers to identify new customers and new markets.
  - **Discovered in PA, Developed in PA** ~ Unveiled in 2011 with full implementation in 2013, the Discovered in PA, Developed in PA (D2PA) program aims to build capacity to better support Pennsylvania businesses and to spur creativity and innovation in the provision of economic development services – from business incubating, to mentoring, to marketing and beyond.
  - **Liberty Financing Authority** ~ The Liberty Financing Authority will integrate current DCED loan programs and funds to create more flexible financing tools and a one-stop-shop for business.

## Increased Support for Local Government Oversight

*The 2012-13 budget recognizes the increased number of municipalities across the state that are experiencing fiscal stress, and it achieves Governor Corbett's goal of proactively supporting municipalities.*

### The budget provides:

- **\$1.7 million in increased funding** for the Municipalities Financial Recovery Revolving Fund. These funds will be used to assist municipalities in distressed fiscal status.
- **A \$100,000, or 15 percent, increase in funding** for the Early Intervention for Distressed Municipalities program. These funds will be used to assist municipalities on the verge of becoming distressed.

# Education in Pennsylvania: Changing the Culture

*Giving School Districts Tools and Flexibility To Improve Student Performance*

## Student Achievement Education Block Grant

*The 2012-13 budget proposes \$6.5 billion in Student Achievement Education Block Grant funds for school districts. This new approach provides flexibility to local education decision-makers to allocate funding to best achieve academic goals and meet legal requirements while reducing administrative burdens and compliance costs.*

### **The following appropriations will be “block-granted:”**

- Basic Education Funding – \$5.35 billion
- Pupil Transportation – \$542.3 million (including Intermediate Unit special education transportation funding)
- Nonpublic and Charter Transportation – \$77.7 million
- Social Security – \$504.8 million to school districts and \$36.8 million for intermediate units

## Changing the Culture of Education

- **Keystone Exams**  
\$15.4 million to develop and implement individual course exams to replace the current 11<sup>th</sup> grade PSSA exams, plus other reforms to the Keystones
- **Teacher and Principal Evaluations**  
\$3.7 million in state and federal funds to continue the development of evaluation tools to measure the effectiveness of teachers and principals and help increase the number of highly effective teachers
- **Real-Time Data Collection**  
\$1.7 million in state and federal funds to improve data collection and reporting to move the commonwealth toward a student-centered system of education financing
- **School Report Card**  
\$471,000 in state and federal funds to provide Pennsylvania families and taxpayers with a straightforward and easily understandable format to evaluate the quality of all public schools

## Funding Schools and Students

### Other Education Highlights:

- **School Employees' Retirement** – an increase of more than \$315 million, or 53 percent, from 2011-12
- **Early Intervention** – \$206.2 million for an increase of \$8.1 million, or 4 percent, from 2011-12
- **Higher Education Programs** – almost \$1.4 billion in total funds supporting the state-related universities, the State System of Higher Education, community colleges and students seeking higher education opportunities, including:
  - \$221.9 million for **Community Colleges**, plus \$46 million in capital funds
  - Level funding with 2011-12 for **Penn College of Technology** (\$13.6 million) and **Thaddeus Stevens College of Technology** (\$10.3 million)

# Criminal Justice and Enhanced Public Safety

*Ensuring the Safety of Pennsylvania's Citizens and Communities*

## Criminal Justice and Enhanced Public Safety

### Department of Corrections

- Level-funds the department's budget for the first time in more than a decade through a combination of operational efficiencies and legislative reforms
- Legislative reforms that will enable the department to expand existing programs such as State Intermediate Punishment, Recidivism Risk Reduction Incentive and Motivational Boot Camp
- Will work closely with the Board of Probation and Parole to improve management of the parole docket and expand the use of parole violation centers
- Provides \$8.2 million to address the pay compression issue for most corrections managers

### Board of Probation and Parole

- An increase of \$5.3 million, or 5.1 percent, for 53 positions approved in the 2011-12 budget and 13 new positions in 2012-13
- \$792,000 for costs related to implementing Act 111 of 2011 (Megan's Law)
- Allows counties to keep adult probation fees

## Criminal Justice and Enhanced Public Safety

### Pennsylvania State Police

- \$7.9 million for a new cadet class of 115 troopers to begin in June 2012.
- Creates a new account in the State Police budget that will receive fine sharing revenue when the State Police issue tickets in municipalities without their own police force. This funding will be used to purchase radio equipment and other protective devices.
- The Office of Homeland Security has been integrated into the Pennsylvania State Police to increase coordination with law enforcement personnel.

## Criminal Justice and Enhanced Public Safety

### Department of Military and Veterans Affairs

- \$360,000 for additional security personnel at Fort Indiantown Gap.
- One-time support of \$1 million to a new veterans foundation and an additional \$700,000 for the Veterans Outreach Services program. Both components are predicated on the sale of the former Scotland School for Veterans Children.
- Support for a new unit scheduled to open at the Southeast Veterans Center in July that will provide skilled and dementia care for 120 veterans.
- The departments of Military and Veterans Affairs, Labor and Industry and Community and Economic Development will promote the federal Returning Heroes Tax Credit and the Wounded Warrior Tax Credit (incentive programs for employers who hire veterans).

### Pennsylvania Emergency Management Agency

- \$18.6 million in state matching funds for summer 2011 flooding disaster relief.
- \$500,000 for the State Fire Commissioner to expand statewide training activities.

# Preserving the Safety Net

*Helping Pennsylvanians Achieve Self-Sufficiency*

## Human Services Development Fund Block Grant

*The 2012-13 budget proposes to transform the relationship between the state and local governments in the delivery of critical human services programs by consolidating multiple human services programs into a single block grant. This will provide counties with the flexibility to move funds where each locality needs them most and will generate savings of \$168.4 million.*

(Dollar Amounts in Thousands)

Proposed Block Grant Appropriations	2011-12 Enacted	2012-13	
		80% To HSDF	20% Reduction
Mental Health Services - Community Programs	\$550,469	\$440,376	\$110,093
Intellectual Disabilities - Community Base Program	\$144,974	\$115,979	\$28,995
County Child Welfare Special Grants	\$48,533	\$38,826	\$9,707
Behavioral Health Services	\$47,908	\$38,326	\$9,582
Homeless Assistance Program	\$20,551	\$16,441	\$4,110
Human Services Development Fund (HSDF)	\$14,956	\$11,965	\$2,991
Act 152 Drug and Alcohol Program (Outpatient)	\$14,727	\$11,782	\$2,945
<b>Total</b>	<b>\$842,118</b>	<b>\$673,695</b>	<b>\$168,423</b>

## Human Services Programs

- **Foster Care Enhancements**  
\$4.5 million in savings generated through increased federal funds to support additional youth ages 18 to 21 in foster care.
- **Adult Protective Services**  
\$1.7 million to implement an adult protective services system to protect physically and cognitively impaired individuals ages 18 through 59.
- **HealthChoices Expansion**  
Transfers funds from the fee-for-service program to the capitation program to expand the HealthChoices physical health program statewide. This proposal is budget-neutral.
- **Children's Health Insurance Program**  
\$101.6 million, an increase of 4.4 percent, to provide health insurance for approximately 195,500 children.
- **State Food Purchase Program**  
\$17.3 million to maintain funding for this program. The Department of Agriculture will implement a more efficient structure for managing this program, reducing administrative costs and increasing the amount of food that will be purchased for those in need.

## Human Services Reforms

- **General Assistance Program Reform**  
Savings of \$319.3 million from the elimination of the cash assistance benefits provided through the General Assistance program, and from revisions to the eligibility criteria for Medical Assistance benefits provided the program, including minimum work requirements for medically needy recipients
- **Revised Provider Reimbursements**  
\$59 million in savings generated from a reduction to provider reimbursement rates or alternative provider cost containment.
- **Program Integrity**  
\$50 million in savings generated through the implementation of an automated audit system to identify waste, fraud and abuse for provider payments and through intensive review and case management of high-cost consumers enrolled in Medical Assistance programs that reimburse for services based on utilization and fee schedules.

## Human Services Reforms

- **Child Care Reimbursement Reform**  
\$10 million in savings from a reduction in paid absences and a decrease in reimbursement rates for unregulated relative and neighbor care.
- **Medical Assistance for Workers with Disabilities Premium Reform**  
\$10 million in savings from increasing the monthly premium rate paid by MAWD program recipients. The premium rate has remained unchanged since the program began in 2001.
- **Hospital Application Process Revisions**  
\$10 million in savings to maintain recipients enrolled through the hospital application process in the fee-for-service program, rather than managed care, until redetermination.

## Older Pennsylvanians

- **\$4.7 billion in total funds** to provide home and community-based services and nursing home care to persons with disabilities and older Pennsylvanians
- **\$286.1 million for the Property Tax / Rent Rebate program**, which assists 606,000 older Pennsylvanians
- **\$248.2 million in Lottery Funds for PENNCARE**, which provides home and community-based services to older Pennsylvanians
- **\$244.8 million** to provide Pharmaceutical Assistance Contract for the Elderly (PACE) and PACE Needs Enhancement Tier (PACENET) to 303,550 older Pennsylvanians
- **\$81 million in Lottery Funds** to support the Older Pennsylvanians Shared Ride program

## Challenges Ahead

As we enter a new era in federal, state and local government relations and responsibilities, there will be great challenges ahead. This budget positions Pennsylvania to take control of its destiny, delineating the priorities of state government, forging a new relationship with local governments and preparing for less support from the federal government.

Future budgets will continue to build upon the steps this budget takes to enhance Pennsylvania's competitiveness and set Pennsylvania on a new path to prosperity by:

- **making continuing improvements in promoting jobs and job growth,**
- **investing in students and education, and**
- **restraining the major cost drivers in the budget.**

## Other Economic and Budgetary Concerns

- Unemployment Compensation loan repayments that took effect in January 2012, increasing by 0.3 percent the federal tax employers must pay
- Uncertainty over the amount of federal funding that may be available to states in the coming fiscal year
  - Automatic cuts of 8.8 percent across the board that take effect in January 2013
- Debt service costs that will continue to increase as a result of commitments made by prior administrations and that will not abate for several years
- Pension obligations the commonwealth must meet for state and public school employees, which will continue to grow significantly through 2016-17

## Growth in PSERS and SERS Contributions

*The most recent actuarial funded ratio for the Public School Employees' Retirement System is 69.1 percent, with an unfunded liability of \$26.5 billion. The State Employees' Retirement System funded ratio is 75 percent, with an unfunded liability of \$10 billion.*

(dollars in millions)

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
PSERS Rate (%)	5.64%	8.65%	12.36%	16.75%	21.25%	25.56%	26.26%
PSERS - State Share (\$)	\$408.6	\$600.2	\$916.1	\$1,318.3	\$1,775.6	\$2,262.0	\$2,532.8
SERS Rate (%)	5.00%	8.00%	11.50%	16.00%	20.50%	25.00%	25.90%
SERS - Total Share (\$)	\$296.8	\$468.1	\$693.5	\$994.3	\$1,312.7	\$1,649.7	\$1,757.9
Total Contributions (\$)	\$705.4	\$1,068.3	\$1,609.6	\$2,312.6	\$3,088.3	\$3,911.7	\$4,290.7

PSERS = Public School Employees' Retirement System  
 SERS = State Employees' Retirement System

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- Maintains important investments in education, public safety and public welfare.

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**February 7, 2012**