



Proposed 2010/11 Budget

House Committee on
Appropriations

Rep. Dwight Evans, Chairman
Miriam Fox, Executive Director
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Table of Contents

General Fund State Deposits	2
Outlook for Tax and Non-Tax Revenue	2
Revenue Modifications	3
General Fund State Expenditures	3
Overview	3
Effect of Federal Funds	4
Pension Rate Spike	5
Agency Appropriations	6
Row Offices	7
Public Safety	8
Corrections	8
Economic Development	9
Education	9
Environment	11
Children’s Health Insurance	12
Public Welfare	12
Judiciary	17
Other Expenditure Highlights	18
Motor License Fund	18
Transportation Funding	19
Senior Citizens and the Lottery Fund	20
Tobacco Settlement Fund	21
Overview	21
adultBasic: the Tobacco Settlement Fund and the Community Health Reimbursement Fund ...	22
Property Tax Relief Fund	23

Today, the Governor presented his budget proposal for Pennsylvania, a plan that was developed even as we emerge from the most serious economic emergency since the Great Depression. While we may not experience a revenue shortfall as serious as last year, we will continue to grapple with the after-shocks of a wounded world-wide financial system and dramatic unemployment. Pennsylvania has fared better than many states, but the fiscal issues continue to demand careful consideration for years to come. We begin consideration of the Executive Budget in an environment where state programs already have been cut significantly.

The commonwealth's 2010/11 operating budget contains total proposed state and federal appropriations of approximately \$66.44 billion, an increase of \$877 million or 1.34% over the revised 2009/10 budget of \$65.57 billion. This includes the state General Fund, federal funds, the Motor License Fund, and other special funds (i.e. Lottery Fund and Tobacco Settlement Fund). State revenues from all funds are projected to increase by about \$1.2 billion for the budget year, or about 3.1% and federal funds are projected to decrease by \$354 million or 1.35%. In 2008/09, state funds made up 67 percent of total funds compared with 60 percent in 2009/10 and 61 percent in the proposed 2010/11 budget.

The General Fund represents the largest portion of state and federal spending and is the fund over which policymakers have the most influence on expenditures. For 2010/11 the General Fund includes \$26.26 billion in state revenue and \$2.76 billion in federal stabilization funds for a total of \$29.03 billion.

On the funding side, no broad based taxes are used to balance the budget year; however, policy makers face a significant out-year gap that will develop as billions of dollars in estimated federal stimulus funds disappear and employer costs for the retirement systems escalate.

General Fund State Deposits

The total amount of state money available to spend each fiscal year includes deposits received in that year, along with the balance carried over from the immediate prior year and unspent money from previous budgets. Taxes collected from individuals and businesses comprise the largest portion of the state's deposits. Fees and other non-tax revenue (such as profits from the Liquor Control Board) make up the remainder of deposits.

Outlook for Tax and Non-Tax Revenue

The Governor's budget projects that General Fund revenues will be \$525 million short for 2009/10. Through the end of January, General Fund collections were \$374.4 million behind the official revenue estimate. With the largest collection months yet to come in March (corporate taxes) and April (personal income tax), there is uncertainty surrounding the final collections. **The Governor's assumption is possible, but there is also a good chance that the final shortfall could be larger.** Most notably, the sales tax projections seem to be optimistic and April's PIT collections remain an important unknown.

For 2010/11 tax receipts are expected to grow at almost four percent, but this is offset by the loss of non-recurring non-tax revenues, leaving an overall decline in General Fund revenues of \$784.6 million. This includes \$180 million in additional revenue from the Oil and Gas Lease Fund.

Revenue Modifications

The Governor's Executive Budget proposes the transfer of \$180 million in revenue from the Oil and Gas Lease Fund to the General Fund. Of the estimated \$180 million from the leasing of state forest land for Marcellus Shale drilling, \$68.4 million already has been deposited in the Oil and Gas Lease Fund in 2009/10. The remaining amount would be generated from leasing additional acreage of state forest land in 2010/11. The \$180 million estimate is in addition to the \$60 million already assumed for the current year, 2009/10.

The creation of a new **Stimulus Transition Reserve Fund** is a proposal that would change or increase several different tax types. The additional revenue generated by these tax changes would be deposited into this new account to help balance the 2011/12 budget in anticipation of the time when federal stimulus funds are no longer available and when the state experiences a spike in retirement costs. This budget proposal assumes an estimated \$2.29 billion in revenue in this fund in 2011/12 and \$1.55 billion in 2012/13. The proposed revenue modifications to be deposited in this fund are as follows:

- A severance tax on natural gas extracted from the vast reserves held within the Marcellus Shale formation. The proposed rate is five percent of the value of the natural gas at the wellhead plus 4.7 cents per thousand cubic feet of natural gas severed. The proposed tax would be effective July 1, 2010. This is the same rate and rate structure used by West Virginia.
- The sales and use tax rate would be lowered from six percent to four percent and the tax base broadened by eliminating 74 sales and use tax exemptions. The proposed tax would be effective September 1, 2010. Also, under the budget proposal the one percent discount for the timely remittance of sales tax collected by licensed vendors would be eliminated.
- A new tax on other tobacco products would be imposed on smokeless tobacco, large cigars, and loose tobacco, effective July 1, 2010. The assumed tax rate is 30 percent of the value of the product.
- A set of business tax reforms is proposed to level the playing field for Pennsylvania businesses through a process referred to as "combined reporting," effective January 1, 2011. This proposal includes:
 - A reduction in the corporate net income tax rate from 9.99 percent to 8.99 percent;
 - Adoption of a single sales factor for the apportionment of income; and
 - Removal of the cap on net operating losses prospectively, retaining the current cap of \$3 million, or 20 percent, of taxable income for prior years' losses.

General Fund State Expenditures

Overview

The following table shows the proposed state appropriations for fiscal year 2010/11, as well as the dollar amount and percentage change from fiscal year 2009/10.

2010/11 Proposed Expenditures				
<i>\$s in thousands</i>	2009/10	2010/11	\$ Change	Percent Change
State Appropriations	\$27,870,720	\$29,029,507	\$1,158,787	4.16%
Supplemental Appropriations	\$4,150		(\$4,150)	
Lapses	(\$135,000)		\$135,000	
Federal Stimulus	(\$2,698,066)	(\$2,756,113)	(\$58,047)	2.15%
Adjusted Total	\$25,041,804	\$26,273,394	\$1,231,590	4.92%

See Table 1, page 23, for a more detail on state General Fund spending, by agency.

Effect of Federal Funds

The federal American Recovery and Reinvestment Act of 2009 (ARRA) provided fiscal relief to the states by increasing the federal Medical Assistance percentage (FMAP) for state Medicaid programs and by allocating Fiscal Stabilization Funds which states may use for education and other public safety services. These funds have been critical in helping states address unprecedented budget deficits during the current economic downturn.

- Pennsylvania is using its Fiscal Stabilization Funds to help fund the agency budgets for the Departments of Education, Corrections and General Services.
- The additional ARRA FMAP is used to pay for Medical Assistance and other Medicaid-related programs that serve individuals with mental retardation, autism and physical disabilities. The ARRA FMAP reflects state Medicaid expenditures that are temporarily shifted to the federal government during the stimulus period.

As authorized under ARRA, the Fiscal Stabilization Funds are available through fiscal year 2010/11 whereas the enhanced FMAP is available only for the first two quarters of 2010/11 as it is scheduled to end after December 2010. (Specifically, ARRA temporarily increased each state's FMAP for the nine quarters beginning October 2008 through December 2010.) Currently, the United States Congress is considering legislation that would extend the enhanced FMAP beyond December 2010, including President Obama's 2011 Budget which provides for a six-month extension of the ARRA FMAP, through June 2011. The Governor's Executive Budget anticipates the commonwealth will continue to receive the enhanced ARRA FMAP for all four quarters of 2010/11.

Altogether, ARRA funds offset (or reduce) state spending by \$2.7 billion in 2009/10 and \$2.75 billion in 2010/11. Accounting for these ARRA funds, the proposed 2010/11 General Fund spending is \$29 billion (\$26.273 billion in state appropriations plus \$2.756 billion in ARRA appropriations). The table below details the distribution of these ARRA funds by department.

Federal ARRA Funds Used to Offset State Appropriations		
(Dollars in Thousands)		
ARRA Fund Type / State Agency	FY 2009/10	FY 2010/11
Enhanced Federal Medicaid Match (FMAP):	\$ 1,776,682	\$ 1,834,729
Public Welfare	1,332,081	1,357,884
Aging and Long Term Living	444,601	476,845
State Fiscal Stabilization Fund:	\$ 921,384	\$ 921,384
Corrections	172,911	172,911
General Services	500	500
Education		
Basic Education	654,747	654,747
Higher Education	93,226	93,226
Total Federal ARRA Funds	\$ 2,698,066	\$ 2,756,113

See Table 2, page 24, for a more detailed examination of state and ARRA spending.

Pension Rate Spike

Both the **Public School Employees Retirement System (PSERS)** and the **State Employees Retirement System (SERS)** faces a dramatic rate spike 2012/13. Based upon the latest available data, the commonwealth's combined General Fund share of the contribution in 2012/13 will increase by \$1.7 billion, from \$1.025 billion to \$2.7 billion (\$1.149 billion for PSERS and \$617 million for SERS). In addition, the cost to school districts, approximately 45 percent of the total school employer contribution, will rise by \$1.2 billion, from \$656 million in 2011/12 to \$1.86 billion in 2012/13. For a detailed analysis of the rate spike, please refer to the "Looming Pension Rate Spike" Budget Briefing recently released by the House Appropriations Committee (D).

In an attempt to mitigate the drastic funding increase in 2012/13, the governor has proposed a two-part solution consisting of a "fresh start" for pension system liabilities and an "incremental phase-in" to higher contributions. The fresh start initiative would re-amortize liabilities over 30 years and the proposed phase-in would limit the annual contributions to incremental stages over a 10-year period.

As a result of this two-part change to pension funding, the Governor is proposing a lower increase in funding for the Commonwealth's portion of the employer contribution for PSERS, an increase of about \$65 million from \$335 million in 2009/10 to almost \$400 million in the budget year. Without the proposed changes, the increase would be an estimated \$206 million from about \$335 million to \$540 million. For PSERS, the proposed appropriation for the budget year reduces spending for the commonwealth by roughly \$140 million (\$400 million vs. \$540 million).

For SERS, state share spending also is reduced. Specific data for the General Fund state share for SERS is unavailable at this time.

Policymakers will need to assess whether the budget year spending reduction should be applied to the retirement fund or returned to the General Fund for expenditure in other program areas.

The following table details the increase in costs to the General Fund assuming no changes to current law.

Total PSERS & SERS General Fund Cost Projections			
(amounts in thousands)			
Fiscal Year	PSERS Proj. State Share*	SERS Proj. State Share**	PSERS & SERS Combined Cost
2009-2010	\$333,465	\$113,200	\$446,665
2010-2011	\$534,130	\$171,800	\$705,930
2011-2012	\$759,659	\$265,400	\$1,025,059
2012-2013	\$1,903,971	\$882,850	\$2,786,821
2013-2014	\$2,574,771	\$1,012,850	\$3,587,621
2014-2015	\$2,835,153	\$1,012,450	\$3,847,603

* State share for PSERS is based on a one-quarter lag in contributions
**Based upon average share of 50% paid by General Fund. Does not include contributions from other funds, such as Motor License, or contributions from agencies not directly under the Governor's jurisdiction, such as the State System of Higher Education

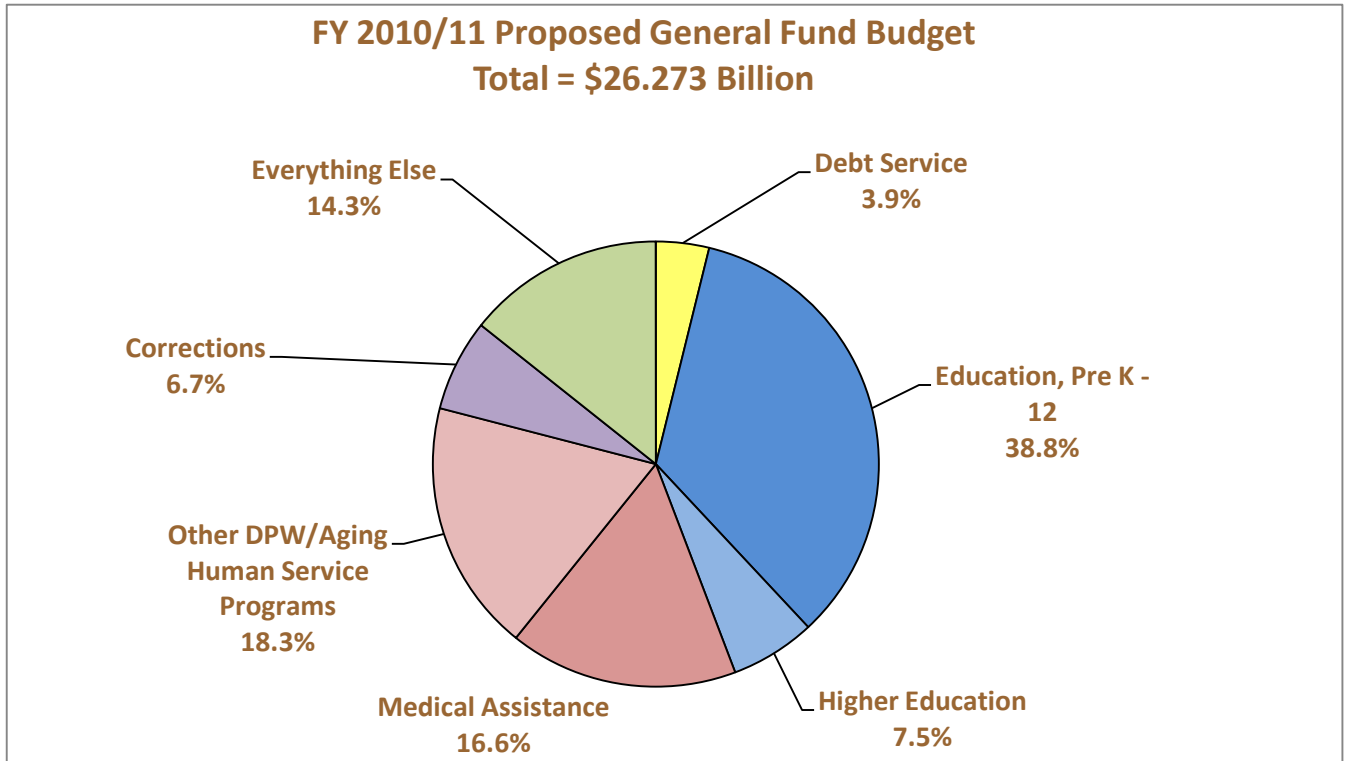
Agency Appropriations

The agencies receiving additional state General Funds are led by:

- The **Department of Education** (\$442.8 million).
- The **Department of Public Welfare** (\$424.4 million, assuming no agency reorganization).
- The **Department of Corrections** (\$136.8 million).
- The **Treasury Department** (\$94.9 million, largely due to spending related to Commonwealth debt).

Only a handful of other agencies, boards or commissions received state General Fund increases. Of those agencies, only the Department of Community and Economic Development, the Department of Revenue, and the Pennsylvania Board of Probation & Parole Board received increases in excess of \$5 million compared with the 2009/10 enacted budget.

Also, please note that once again, the Governor is proposing to reorganize the Department of Aging by moving three long term living programs currently funded in the Department of Public Welfare: Medical Assistance long term care, attendant care and services to persons with disabilities. This new agency will be called the **Department of Aging and Long Term Living** and will have a \$5.2 billion total budget (state, federal and other funds), making it the fourth largest agency in Pennsylvania state government.



Row Offices

Attorney General

The Governor’s budget proposes \$85.7 million in state funds for the Office of Attorney General in 2010/11, or a one percent decrease compared to 2009/10.

Auditor General

The Governor’s budget proposes a one percent cut to the Auditor General’s Office, for a total of \$59 million in state funds. The Auditor General had requested a seven percent increase over the \$60.9 million the office received in 2009/10.

Treasury

Treasury is one of the few agencies to receive an increase in the Governor’s proposed 2010/11 budget compared with the current year. In total, the Treasury budget increased \$94.8 million, or 9.7%; however the general government operations proposed appropriation declined by one percent. The overall increase largely reflects funding for the following debt related appropriations:

- **General Obligation debt service** which increases by \$82.2 million.
- **Tax Anticipation Note interest** which increases by \$8.7 million.
- **Tax Anticipation Note Expenses** which increases by \$400,000.

The proposed budget increase for Treasury reflects another extraordinary increase of \$3.5 million, attributable to a line item for **technology modernization**. The department is operating with Nixon-era computer mainframes that are desperately in need of replacement and continually run the risk of breaking down. Such a breakdown would greatly impair the ability of

the commonwealth to process its financial transactions. In his request, the Treasurer asked for \$12 million this year for this modernization project. Replacing all of the Treasury's systems is expected to cost approximately \$42 million over several years.

Public Safety

Commission on Crime and Delinquency

The 2010/11 budget proposal cuts the Pennsylvania Commission on Crime and Delinquency (PCCD) by one percent. Fortunately, many programs receiving federal funding are either level-funded or increased; however, state programs receive significant cuts under the proposal. These programs include: **Victims of Juvenile Crime, Evidence-Based Prevention and Intervention, Weed and Seed, Intermediate Punishment Programs, Intermediate Punishment Drug and Alcohol Treatment, and Research-Based Violence Prevention.**

Corrections

The Governor's 2010/11 budget proposes nearly \$1.8 billion in state funds for the Department of Corrections (DOC), which is \$136.8 million or 8.5% more than last year.

While the **General Government Operations** appropriation for DOC will see a one percent decrease in funding, the proposed budget increases the **Inmate Medical Care** (7.3%), **Inmate Education and Training** (4.5%), and the **State Correctional Institution** (9%) appropriations. Similar to 2009/10, the state correctional institution (SCI) appropriation will be bolstered by \$173 million in funding from ARRA State Fiscal Stabilization funds.

As Pennsylvania's inmate population grows, funding the Department of Corrections continues to be one of the commonwealth's biggest expenses. To address this growth trend, the Governor's 2010/11 budget provides \$13 million in funding to DOC for more than 2,000 additional beds at nine correctional facilities.

As of January 25, 2010, there were 51,371 inmates, a 4.2% increase compared to December 31, 2008. Pennsylvania's SCI's at full capacity hold 43,584 inmates; therefore, the commonwealth is currently at 117.9% of capacity. As of December 31, 2009, DOC is housing 525 inmates in county jails and the agency plans to transfer 2,000 inmates to facilities in Michigan and Virginia.

Pennsylvania State Police

The Governor's 2010/11 budget proposal for the Pennsylvania State Police (PSP) provides for a 1.1% increase in General Funds and a 2.8% increase in the Motor License Fund. Overall, PSP can expect a 2.4% increase in funding **providing for a 100 member police cadet class** that will commence training in October 2010.

While funding is provided for a cadet class, the proposed budget reduces the **Law Enforcement Information Technology** appropriation, **Gun Checks**, and **Automated Fingerprint ID System**. The proposed budget also reduces the **Municipal Police Officers' Education and Training Commission**. These levels continue to cause concern for local municipalities hoping to have their officers newly certified or maintain certification.

Pennsylvania Board of Probation and Parole

The Governor's 2010/11 budget proposes \$125.8 million for the Pennsylvania Board of Probation and Parole (PBPP). This is a seven percent increase or nearly \$8.2 million more than 2009/10. The Governor indicates that \$2 million is for **additional parole officer positions** to improve parolee supervision and to reduce the likelihood of repeat offending.

While PBPP's **General Government Operations** appropriation and **Sexual Offenders Assessment Board** will receive increases in funding, funding for **Improvement of Adult Probation Services** is cut by nearly two percent. This reduction will affect county reimbursements.

Economic Development

The 2010/11 budget proposal includes increases to the programs detailed in the following chart under the Department of Community and Economic Development (DCED). However, please note that the majority of programs under DCED were decreased.

Increases: Department of Community and Economic Development				
<i>(\$s in thousands)</i>				
	FY 09/10	FY 10/11	\$ Change	% Change
Transfer to Commonwealth Financing Authority	\$65,039	\$83,293	\$18,254	28.1%
Opportunity Grant Program	\$18,268	\$25,000	\$6,732	36.9%
Customized Job Training	\$9,000	\$11,000	\$2,000	22.2%
Infrastructure Development	\$15,000	\$19,000	\$4,000	26.7%
Infrastructure and Facilities Improvement Grants	\$28,000	\$30,000	\$2,000	7.1%

The increase for the transfer to the Commonwealth Financing Authority (CFA) is needed to adequately provide debt service for the CFA's economic development bonds. Overall, the Governor is proposing to increase the department's total state General Fund budget to \$286.4 million. That equates to an increase of \$21.6 million or eight percent over the 2009/10 state General Fund total of \$264.8 million.

Education

Basic Education

The proposed 2010/11 budget funds the **basic education subsidy** at more than \$5.88 billion, an increase of \$354 million or 6.4%. The total subsidy payment consists of \$5.226 billion in state funds and \$654.7 million in federal stimulus funds. A total of \$1.3 billion in federal stimulus funds is assumed for the basic education subsidy, evenly split over 2009/10 and 2010/11.

Fiscal year 2010/11 marks the third year of the new basic education subsidy formula. This formula is based on the findings and recommendations of the Costing-Out Study (Act 114 of 2006) by calculating the state share of funding to provide "adequate" and "equitable" spending for each commonwealth school district. Originally, the plan included increasing this state share over a six-year period; however, as with 2009/10, the 2010/11 proposal falls short of the original target for state share funding in year three. Therefore, increasing the state share to the fully recommended level will most likely take longer than six years.

Other than the basic education subsidy and a new \$2.4 million line item for **Teacher Certification**, the proposed budget increases fewer than 20 percent of the education budget line items. Other appropriations were either flat-funded at 2009/10 levels or reduced. A majority of the increased appropriations represent funding for mandated payments/reimbursements, including:

- Pupil Transportation
- Tuition for Orphans and Children Placed in Private Homes
- Payments in Lieu of Taxes
- School Food Services

- Rx for PA – School Food Services
- School Employees' Social Security
- School Employees' Retirement

The Governor's proposed budget funds the **Accountability Block Grant**, introduced in the 2004/05 budget to provide funding for programs such as pre-kindergarten, at \$271.4 million. This represents flat-funding at the 2009/10 level.

The proposed 2010/11 budget funds the **Education Assistance Program** at \$55.3 million. This program provides extra tutoring services to 172,000 students in 175 school districts and Career and Technical Centers. The 2009/10 enacted budget included \$59.1 million for this; however, as part of the additional reductions announced in January 2010, the appropriation was reduced by \$3.8 million. The proposed funding for 2010/11 is equal to the January 2010 revised amount.

Early Learning

The Governor's proposed budget funds **Pre-K Counts** at \$85.9 million to provide early learning opportunities to 11,800 children. The 2009/10 enacted budget provided \$86.4 million for this program; however, as part of the additional reductions announced in January 2010, the appropriation was reduced by \$475,000. The proposed funding for 2010/11 is equal to the January 2010 revised amount.

The proposed 2010/11 budget provides \$38.7 million for **Head Start Supplemental Assistance** which supplements the federal Head Start program to provide early learning opportunities to more than 5,700 eligible children. The 2009/10 enacted budget provided \$39.5 million for this program; however, as part of the additional reductions announced in January 2010, the appropriation was reduced by \$784,000. The proposed funding for 2010/11 is equal to the January 2010 revised amount.

The Governor's proposal funds **Early Intervention** at \$186.1 million, an increase of \$12.6 million or nearly 7.2%. This program provides early learning opportunities for developmentally delayed school age children.

Special Education

The Governor's proposed 2010/11 budget provides \$1.02 billion for the **special education subsidy**. State funding for this appropriation has remained at the same level since 2008/09. Also note that federal stimulus funds provided an additional supplement of Individuals with Disabilities Education Act (IDEA) funding totaling more than \$376 million in 2009/10. These additional funds were paid to both school districts and charter schools.

Public Library Subsidy

The proposed budget funds the **Public Library Subsidy** at \$58.8 million. This represents a decrease of \$1.2 million or 2 percent compared to 2009/10.

Higher Education

As was the case in 2009/10, the Governor proposes to use a combination of state and federal ARRA funds for higher education. **Community colleges**, the **State System of Higher Education**, **Thaddeus Stevens College of Technology** and the **state-related universities** all receive the same allocation as in 2009/10.

Higher Education: State and ARRA Funds			
	2008/09	2009/10	2010/11
Community Colleges	\$236,240	\$235,741	\$235,741
State	\$236,240	\$214,217	\$214,217
ARRA	\$0	\$21,524	\$21,524
State System of Higher Education	\$524,236	\$503,355	\$503,355
State	\$497,168	\$465,197	\$465,197
ARRA	\$27,068	\$38,158	\$38,158
Pennsylvania State University	\$335,046	\$333,863	\$333,863
State	\$318,073	\$318,072	\$318,072
ARRA	\$16,973	\$15,791	\$15,791
University of Pittsburgh	\$169,134	\$167,995	\$167,995
State	\$160,490	\$160,490	\$160,490
ARRA	\$8,644	\$7,505	\$7,505
Temple University	\$173,904	\$172,737	\$172,737
State	\$164,974	\$164,974	\$164,974
ARRA	\$8,930	\$7,763	\$7,763
Lincoln University	\$14,453	\$13,782	\$13,782
State	\$13,623	\$13,623	\$13,623
ARRA	\$830	\$159	\$159
Thaddeus Stevens College of Technology	\$10,700	\$10,876	\$10,876
State	\$10,293	\$8,550	\$8,550
ARRA	\$407	\$2,326	\$2,326

The proposed budget also funds the **University of Pennsylvania** veterinary school at \$30 million, the same amount as 2009/10. Additionally the Center for Infectious Disease would receive \$500,000. The Center received no funding in 2009/10.

Drexel University, the Philadelphia College of Osteopathic Medicine, the Lake Erie College of Osteopathic Medicine, Salus University, the Philadelphia University of the Arts, the Johnson Technical Institute, and the Williamson Free School of Mechanical Trades receive no funding in the Governor's proposal.

The Governor's proposed budget funds programs administered by **Pennsylvania Higher Education Assistance Agency (PHEAA)** at \$455 million, the same level as 2009/10. This includes the Grants to Students appropriation at \$403.6 million.

Environment

The enacted 2009/10 budget included a \$60 million transfer from the **Oil and Gas Lease Fund** to the General Fund, via the sale of state forest land leases for natural gas exploration.

The six tracts that were leased equaled approximately 31,967 acres, or approximately 1.5% of Pennsylvania's total state forest land. The tracts are located in the Elk, Moshannon, Sproul, Susquehannock, and Tioga state forests in Cameron, Clearfield, Clinton, Potter, and Tioga counties.

According to the Department of Conservation and Natural Resources (DCNR), the leases will generate approximately \$128.4 million for the commonwealth, \$68.4 million more than projected. The department reported that the state received bids that averaged more than \$4,000 per acre.

The Governor's 2010/11 budget proposal assumes a \$180 million transfer from the Oil and Gas Lease Fund to the General Fund. The \$180 million includes the \$68.4 million from the January bids. The remaining revenues will be generated from the lease of additional tracts of state forest lands for natural gas exploration.

Children's Health Insurance

The Children's Health Care Act of 1992 established the **Children's Health Insurance Program (CHIP)**. CHIP provides health care to children of low-income families who earn too much to qualify for Medical Assistance benefits, but not enough to purchase private insurance. Depending upon family income, children receive either free or subsidized health insurance under CHIP. In October 2006, the General Assembly enacted Cover All Kids legislation (Act 136 of 2006) to expand the subsidized portion of the CHIP program to additional families and provides CHIP as insurance of last resort for all other families.

Funding for the program is shared between the state and federal government, with the federal government providing federal SCHIP block grant funds to match state spending. In addition, in the subsidized portion of the program, participating families contribute a portion of the monthly premium calculated on a sliding scale, based on income.

The proposed 2010/11 budget anticipates that 208,555 children will be served in the program during 2010/11. This is an increase of over 10,000 children. Enrollment at the beginning of February 2010 was 197,000 children.

The proposed 2010/11 budget includes \$100.4 million in state funds and over \$300 million in federal funds for the CHIP program. This is compared with \$97.1 million in state funds and \$284 million in federal funds in the enacted 2009/10 budget. State funds are supplemented with dedicated stream of cigarette tax revenue fixed at \$30.73 million annually per statute. Funding for CHIP represents 79 percent of the Insurance Department's state General Fund budget.

Public Welfare

Most of DPW's \$389 million budgeted increase is for the Medical Assistance (MA) program, discussed in greater detail below. Please note that without the proposed agency reorganization, which would transfer MA Long Term Care as well as Attendant Care and Services to Persons with Disabilities from DPW to a new Department of Aging and Long Term Living, the increase in DPW's budget would be \$424 million.

Besides Medical Assistance, other DPW programs areas slated to receive significant increases include county child welfare (\$24 million) and community mental retardation services (\$17 million). In addition, funding increases totaling \$27 million are budgeted for DPW's administrative lines that support county assistance offices, child support enforcement, information systems, and the Department's general government operations.

We also note here that the Executive Budget funds the expansion of community programs for the elderly and disabled via the proposed Department of Aging and Long Term Living. Pennsylvania's elderly will benefit from increased funding (\$6.3 million state funds) in the MA Long Term Care line item to expand the community Waiver program so that an additional 1,692 seniors can receive services in their homes and communities as an alternative to nursing home care. Adults with physical disabilities will benefit from state funding increases to the following

line items: \$6.0 million for Services to Persons with Disabilities to expand community services for an additional 744 individuals; and \$5.1 million for Attendant Care to serve an additional 780 individuals.

Medical Assistance

The proposed 2010/11 budget for the five major Medical Assistance (MA) appropriations -- Outpatient, Inpatient, Capitation, Long Term Care, and Payment to Federal Government for the Medicare Drug Program -- totals \$15.9 billion in state, federal and other funds. State General Funds account for only 27 percent of the MA budget, or \$4.35 billion. This represents a state General Fund increase of \$360 million (or nine percent) over the 2009/10 budget.

The Executive Budget assumes two federal legislative changes that substantially reduce the amount of General Fund spending that otherwise would be required to support Medical Assistance. Specifically, the following federal changes reduce the need for state General Funds by \$950.5 million in 2010/11. In other words, without these federal changes, the state General Fund requirement for the 2010/11 MA budget would jump from the requested \$4.35 billion to a staggering \$5.3 billion.

- As explained earlier, the proposed budget assumes an extension of the ARRA FMAP through at least June 2011, under which it is anticipated Pennsylvania will receive \$848 million in additional federal Medicaid matching funds for the last two quarters of 2010/11.
- In addition, the proposed budget assumes Congress will enact legislation to extend the federal Medicaid Drug Rebate Program to managed care organizations, which would enable the Commonwealth to earn an anticipated \$102.5 million in drug rebates while allowing managed care organizations to continue their administration of the pharmacy benefit for the approximately 1.2 million Pennsylvanians enrolled in MA managed care. Currently, the Medicaid Drug Rebate Program only applies to drugs that states dispense to Medicaid patients through their fee-for-service programs (this is why previous MA budgets proposed a “carve out” that shifted the managed care pharmacy benefit to the fee-for-service program so that DPW could claim the federal rebates). Federal legislation extending the rebate program to managed care already has passed each chamber of Congress, but requires reconciliation in order to become law.

The “Big Four” appropriations in the Medical Assistance budget are Capitation, Outpatient, Inpatient, and Long-Term Care. These are the traditional appropriations that fund the costs associated with providing health care in the MA program. Capitation funds the health care costs for MA recipients enrolled in managed care. The fee-for-service program is funded through the Outpatient and Inpatient appropriations. Nursing facility and home-and community-based services are funded through Long Term Care.

A new appropriation, Medicare Part D Payment, was added in 2006 to fund the mandated monthly payments that states must make to the federal government to finance Medicare Part D drug benefits for dual eligible persons. (Dual eligibles are low-income elderly and disabled who qualify for both Medicare and MA benefits.) Prior to the January 2006 implementation of Medicare Part D, prescription drugs for Pennsylvania’s dual eligibles were covered under the MA program.

Three major cost factors drive the 2010/11 MA budget: the need to replace non-recurring revenue; growth in MA caseload and service utilization; and rising health care costs. Each of these cost drivers is summarized below:

- The need to replace revenue that was used in 2009/10 to pay for MA, but no longer available in 2010/11, totals \$397 million. The Executive Budget includes replacement revenue for the following non-recurring revenues: \$282 million to replace prior year state funds (reflecting the impact of the MA expenditure rollback in the 2009/10 budget); \$25.5 million to replace Tobacco Settlement Funds that were redirected in 2008/09 to help pay for long-term care; and \$89 million to replace the managed care assessment that expired after September 30, 2009.
- Growth in MA caseload and service utilization accounts for approximately \$100 million of increased spending need. The number of Pennsylvanians enrolled in MA is expected to average nearly 2,131,000 during 2010/11, an increase of three percent over the current year.
- Rising health care costs account for \$189 million of the proposed state increase. The largest component is the \$130 million requested to provide federally required actuarially sound managed care rates. It also includes \$31 million to fund the expected increase in the mandated state payments to the federal government for Medicare Part D as well an estimated \$16.7 million increase to pay Medicare Part A and Part B costs for elderly and disabled individuals who qualify for financial assistance. No funds are budgeted for rate increases for nursing homes or hospitals.

In addition to these major cost drivers, the proposed MA budget includes other significant state funding increases that are worth noting here. The Capitation appropriation includes \$29 million to provide prior year Pay-For-Performance payments to managed care organizations. The Long Term Care appropriation includes an additional \$28.5 million for community programs (\$6.2 million is to expand community services to 1,692 additional seniors in 2010/11 and \$22.3 is to annualize a previous expansion of community programs).

The Executive Budget includes MA cost containment initiatives which are expected to generate state savings of \$137 million in 2009/10, partially offsetting the expenditure increases identified above. The budgeted cost savings are as follows:

- \$102.5 million from the managed care drug rebates anticipated from the previously discussed federal change to the Medicaid Drug Rebate Program. These savings are reflected in the Outpatient appropriation.
- \$25.6 million from a proposed reduction in hospital supplemental payments, including a \$5.5 million cut to the Outpatient disproportionate share payment and \$20.1 million cut to Inpatient supplemental payments.
- \$4.6 million from increased pharmacy efficiencies to ensure patient safety and enforce appropriate medication prescribing. These savings are reflected in the Outpatient appropriation.
- \$4.4 million from proposed initiatives to reduce fraud and abuse as well as expand third party liability, including a renewed call to implement a State False Claims Act.

Mental Health/Mental Retardation

The 2010/11 DPW budget proposes modest increases in state General Funds to expand community MH/MR services, including: \$2 million to expand community mental retardation waiver services for 150 additional individuals; \$4.7 million to expand Autism services for 226 additional adults; and \$14.3 million to expand community mental health services for 155 individuals currently residing in state hospitals.

The 2010/11 budget reflects the scheduled December 2010 closure of Allentown State Hospital, the savings from which will be reinvested to develop community-based mental health services. The closure of all beds in Allentown State Hospital will include the discharge into the community

of up to 125 individuals from Allentown and Wernersville State Hospitals as well as the possible transfer of up to 65 individuals (assessed as needing continued state hospital level of care) from Allentown State Hospital to Wernersville State Hospital. DPW will attempt to provide the 379 Allentown hospital staff with the opportunity to continue their employment with the Commonwealth, with up to 85 staff given priority consideration for transfer to Wernersville State Hospital,

Income Maintenance

The **Cash Grants** appropriation funds monthly cash payments and supportive services allowances (such as transportation and clothing) to Temporary Assistance for Needy Families (TANF), General Assistance (GA) and State Blind Pension (SBP) recipients. In addition, this line item funds certain employment and training programs for TANF recipients. Beginning with the 2007/08 budget, child care supports for TANF and former TANF recipients are funded under the Child Care Assistance appropriation.

Between December 2008 and December 2009, the number of people receiving TANF cash assistance increased by nine percent. The TANF caseload had experienced a declining trend for nearly four years. In order to address increasing in caseloads for all cash assistance, the proposed 2010/11 budget provides \$278 million in state and \$362 million in federal funds. This represents a \$9.6 million or 3.6% increase in state funding over 2009/10.

The **Supplemental Grants** appropriation provides funding to supplement federal benefits paid to aged, blind, and disabled recipients under the federal Supplemental Security Income (SSI) program. The Social Security Administration (SSA) established the federal SSI Program in 1974. States were given the option of providing supplementary cash payments to augment federal benefits.

For many years, the state was able to use Intergovernmental Transfer (IGT) funds to offset state spending in this program. IGT funds were no longer available for 2009/10, leaving a funding gap of nearly \$24 million. The 2009/10 budget addressed this gap by adding additional state funds and making changes to the program. While the enacted 2009/10 budget increased state spending by \$16.5 million, total spending in the program actually decreased since the full amount of unavailable IGT funds was not replaced.

Due to less available funding, the State Supplementary Payment (SSP) benefits that are administered by DPW were reduced effective with the February 2010 payment. The new benefit rates are based on the minimum SSP rates allowed for Pennsylvania according to federal regulation governing permissible decreases in the state supplement amounts. Pennsylvania SSP benefits have been paid at a higher payment level than the minimum since 1983.

The proposed 2010/11 budget provides for \$149 million in state funds for the Supplemental Grants appropriation. This represents a \$5.3 million or 3.4% decrease in state funding compared with 2009/10. The appropriation is based upon the 2009/10 benefit levels that went into effect in February 2010 (less than in 2008/09).

County Child Welfare

As required in the County Code and the Public Welfare Code, the **County Child Welfare** appropriation under the Department of Public Welfare (DPW) provides state and federal funds to support county-administered social services programs for children and youth in each of the Commonwealth's 67 counties.

Each year, the proposed funding level for child welfare services is built from the Needs-Based Plan and Budget (NBB) process. Article VII of the Public Welfare Code establishes child welfare services as an entitlement program that is the joint responsibility of DPW and county government. DPW administers the funds and regulates the services, while the counties provide the services to families and children consistent with their approved NBB and the state regulations that govern the county children and youth agencies.

Under the American Recovery and Reinvestment Act (ARRA), the state also benefits from an increased Title IV-E federal match on eligible services (from about 54 percent to nearly 60 percent). Due to the enhanced match, the 2009/10 state appropriation was reduced by a corresponding \$14 million.

Also, note that as part of the additional 2009/10 cuts announced in January 2010, the state appropriation for County Child Welfare was reduced by \$10.5 million. This resulted in reduced, revised allocations to counties.

The proposed 2010/11 budget increases state funding for County Child Welfare by \$23.7 million or 2.3%, compared to the 2009/10 enacted budget. Again, ARRA funding of approximately \$14 million will supplement the program in 2010/11. Funding for County Child Welfare represents nearly 13 percent of the department's state General Fund budget.

Child Care Works

Under the **Child Care Assistance** appropriation, the commonwealth uses state and federal funds to subsidize the cost of care for children whose parents are currently or recently enrolled in the Temporary Assistance for Needy Families (TANF) program.

The proposed 2010/11 budget appropriates \$198.7 million in state and \$195.2 million in federal funds for child care assistance. This represents an increase of \$10.6 million or 2.8% in total state and federal funds; however, note that the proposed budget only increases state funding by \$535,000.

The **Child Care Services** appropriation provides subsidized child care to low-income working families on a sliding fee scale. Participation in the program is dependent on available funds. Since July 2006, the waiting list for subsidized child care has fluctuated between approximately 6,000 to 16,000 children. As of February 2, 2010, the waiting list had approximately 5,529 children.

This appropriation also funds the Keystone STARS program; a comprehensive, voluntary, early learning quality improvement initiative that has received national recognition. This appropriation includes the T.E.A.C.H. initiative, a scholarship program to assist staff currently working in the early childhood field to attain a degree in early childhood education.

The American Recovery and Reinvestment Act (ARRA) provided additional funding through the Child Care Development Block Grant (CCDFBG) for states to supplement (not supplant) child care programming for low-income families. Under ARRA, Pennsylvania is set to receive nearly \$60 million over three years. As part of this additional funding, ARRA specifically targeted some funds for child care quality improvement and infant/toddler quality improvement.

In order to receive the funds, state funding for child care services for low-income families must be equal to or greater than the amount of state funds appropriated at the time of ARRA's passage. This fulfills the non-supplantation requirement under ARRA. In 2009/10, Pennsylvania used approximately \$22 million in ARRA funds to improve child care services.

The proposed 2010/11 budget appropriates nearly \$171.7 million in state funds and nearly \$252.7 million in federal funds under the child care services appropriation. The proposed

2010/11 budget maintains level state funding which fulfills the ARRA non-supplantation requirement. This represents an increase of \$7.8 million or nearly two percent in total state and federal funds. As in 2009/10, the proposed 2010/11 budget assumes in ARRA funds (\$41.7 million) to improve child care services.

Early Intervention Services

DPW provides services and supports designed to help families with children up to age three years who have a developmental delay through the **Early Intervention** appropriation. Additional services for children age three through kindergarten are provided under the Department of Education. This program is an entitlement program, meaning that all children meeting the criteria must be served.

The enacted 2009/10 budget included \$122.151 million in state funds for Early Intervention. Under the American Recovery and Reinvestment Act (ARRA), the state also benefits from an increased federal medical assistance percentage match on eligible services. Also, under ARRA, additional money under the Individuals with Disabilities Education Act (IDEA) was made available to fund early intervention services. Due to the enhanced match and additional ARRA IDEA funds, the 2009/10 state appropriation for Early Intervention was reduced by a corresponding \$13 million.

The proposed 2010/11 budget decreases state funding for Early Intervention by \$3.2 million or 2.7 percent. The proposed funding includes additional state funds to annualize the cost of children from 2009/10 and provide services to an additional 1,172 children in 2010/11. Again, ARRA funding of approximately \$2.2 million will supplement the program in 2010/11. The proposed budget also assumes \$9.2 million from prior year carryover to offset state costs in 2010/11.

Judiciary

The Governor's 2010/11 budget proposes flat funding for all appropriations within the Judiciary for a total General Fund cost of \$276.9 million for 2010/11. The Judiciary's budget request for 2010/11 is \$341.1 million in state funds, or a 23 percent increase over the Governor's proposal.

According to the Administrative Office of Pennsylvania Courts (AOPC), current projections indicate a shortfall of \$31.3 million in the Judiciary budget for 2009/10. After adjusting for judges not receiving a COLA and higher vacancy rates than originally projected in 2009/10 for common pleas and magisterial district judge appropriations, the Judiciary budget shortfall for 2009/10 is approximately \$27 million.

Because the Governor's budget proposal for the Judiciary in 2010/11 is identical to his proposal for 2009/10, the Judiciary can expect a similar \$27 million shortfall this budget year. At the request of the Judiciary, Act 49 of 2009 included additional surcharges on court filings for a 25-month period. The use of funds from Act 49, along with transfers from dedicated funds, will be required to resolve deficits within the Judiciary budget.

Due to enactment later than initially anticipated, Act 49 of 2009 will be in effect for only about five months during 2009/10 and projections based on previous year case loads indicate approximately \$11.7 million in additional revenue for the Judiciary. According to AOPC, due to computer issues at the Department of Revenue, data related to how much has been collected as a result of Act 49 is not currently available.

Other Expenditure Highlights

Underground Storage Tank Indemnification Fund (USTIF) Loan Repayment

As part of the one-time fixes in the 2002/03 General Fund Budget, the **Underground Storage Tank Indemnification Fund (USTIF)** 'loaned' \$100 million to the General Fund. Per statute, the loan must be repaid, with interest, after a ten-year period. Under the USTIF Loan Repayment appropriation, loan repayment began in 2004/05. Due to the need to reduce General Fund spending in recent years, this appropriation has been underfunded or unfunded and repayment to date has barely covered the interest owed. The proposed 2010/11 budget does not fund this loan repayment.

Motor License Fund

The following table details estimated revenues to be deposited in the Motor License Fund.

MOTOR LICENSE FUND	2008-09 Actual	2009-10 Estimated	2010-11 Budget	Change	Percent
UNRESTRICTED REVENUES					
Liquid Fuels Taxes.....	\$1,163,233	\$1,179,290	\$1,180,630	\$1,340	0.1%
Motor Licenses and Fees.....	883,846	843,460	844,540	\$1,080	0.1%
Other Revenues ¹	<u>509,665</u>	<u>578,240</u>	<u>593,890</u>	<u>\$15,650</u>	<u>2.6%</u>
TOTAL UNRESTRICTED	\$2,556,744	\$2,600,990	\$2,619,060	\$18,070	0.7%
RESTRICTED REVENUES:					
Aviation.....	7,944	7,960	7,170	(\$790)	-11.0%
Highway Bridge Improvement.....	103,723	100,270	100,130	(\$140)	-0.1%
State Highway Transfer.....	23,836	23,040	23,060	\$20	0.1%
Oil Company Franchise Tax.....	437,007	422,400	422,820	\$420	0.1%
Supplemental Maintenance.....	<u>305,905</u>	<u>295,680</u>	<u>295,980</u>	<u>\$300</u>	<u>0.1%</u>
TOTAL RESTRICTED	878,415	849,350	849,160	(\$190)	0.0%
TOTAL MOTOR LICENSE FUND	\$3,435,159	\$3,450,340	\$3,468,220	\$17,880	0.5%

¹Includes Turnpike Payments

The following table details the Governor's proposed funding for agencies from the unrestricted revenue portion of the Motor License Fund.

Unrestricted Motor License Fund Expenditures	Available 2009/2010	Proposed 2010/2011	Difference	
	In thousands of dollars			%
Executive Offices	23,030	24,662	1,632	7.1%
Treasury Department	36,826	37,145	319	0.9%
Department of Agriculture	4,689	3,975	-714	-15.2%
Department of Conservation and Natural Resources	1,000	1,000	0	0.0%
Department of Education	1,125	1,103	-22	-2.0%
Department of Environmental Protection	4,000	4,000	0	0.0%
Department of General Services	12,754	12,779	25	0.2%
Department of Revenue	26,842	27,218	376	1.4%
State Police	518,900	533,455	14,555	2.8%
Department of Transportation	2,057,951	2,063,631	5,680	0.3%
Total Expenditures	2,687,117	2,708,968	21,851	0.8%

Transportation Funding

The Governor's budget forecasts relatively flat but stable funding for highways and transit. Fundamental to this forecast is the assumption that the application to toll Interstate 80 pursuant to Act 44 of 2007 will be approved.

Act 44 provided for payments from the Pennsylvania Turnpike Commission at two different levels after the initial three years of payments. If the Turnpike Commission is successful in converting I-80 to a toll road, then the Department of Transportation receives a higher level of payments for the Motor License Fund and the Public Transportation Trust Fund. For 2010/2011, for example, each Fund would receive \$512.5 million and \$410 million, respectively. If, however, conversion is not accomplished, then the payments drop to \$200 million and \$250 million, respectively. Act 44, however, provides for three one-year extensions if the Commission believes it will be able to accomplish conversion.

The decision on whether I-80 will be tolled rests with the Federal Highway Administration (FHWA). On September 11, 2008, FHWA, in a letter to PennDOT and the Commission, stated it was "unable to move the application forward" under the Interstate System Reconstruction and Rehabilitation Pilot Program "at this time." On October 30, 2009, Pennsylvania resubmitted its application after making various changes in hopes of addressing the concerns of the federal government and ultimately winning approval.

The Governor again recommends borrowing \$200 million as part of the capital budget for bridge projects.

Also of special interest, the Governor is proposing additional funding for the **rail freight assistance program**, which helps connect businesses to existing rail lines to facilitate goods movement, from \$8.5 million to \$9.5 million.

The following table details Pennsylvania's commitment to mass transit.

MASS TRANSIT FUNDING	2008-09	2009-10	2010-11		
	Actual	Available	Estimated	Change	Percent
PUBLIC TRANSPORTATION TRUST FUND:					
Mass Transit Operating (EA)	704,403	696,161	709,992	13,831	1.9%
Asset Improvement (EA)	74,890	127,230	129,733	2,503	1.9%
Capital Improvement (EA)	23,787	28,625	11,849	-16,776	-141.6%
Programs of Statewide Significance (EA)..	51,147	49,803	47,921	-1,882	-3.9%
Public Transportation Assistance Fund Grants	163,564	170,447	169,690	-757	-0.4%
Capital Budget Projects (Estimated)	125,000	125,000	125,000	0	0.0%
Total Grants	1,142,791	1,197,266	1,194,185	-3,081	-0.3%
Transit Administration and Oversight (EA)	4,513	4,513	4,431	-82	-1.9%
Total Mass Transit	1,147,304	1,201,779	1,198,616	-3,163	-0.3%

Senior Citizens and the Lottery Fund

Lottery Funds available to spend in 2010/11 are projected at \$1.71 billion, a \$4.5 million increase from 2009/10. Funds available to spend include: the prior year ending balance carried forward to 2010/11 (\$14.6 million); net Lottery collections after commissions and field prizes (\$1.414 billion); transfers from the Gaming Fund to pay for Property Tax and Rent Rebate program expansion costs under Special Session Act 1 of 2006 (\$165.9 million); and miscellaneous revenue, namely investment earnings (\$2.5 million).

The Executive Budget proposes total spending of \$1.594 billion in 2010/11, a \$15.9 million increase from 2009/10. This would leave an ending balance in the Lottery Fund of \$116.4 million.

The 2010/11 budget proposes \$243.6 million for **PENNCARE**, a \$2.1 million increase. There is no cost-of-living-adjustment included in the 2010/11 proposed budget; however, funding is proposed to provide attendant care services to an additional 285 older Pennsylvanians.

The 2010/11 proposed budget projects an additional 6,666 seniors will enroll in the **Pharmaceutical Assistance Program (PACE)**, bringing the total number of seniors receiving pharmaceutical assistance to 319,815. The PACE program has three components in which enrollees receive assistance – PACE, PACENET, and PACE Plus Medicare. Lottery Funds for the PACE program total \$200 million, a decrease of \$10 million. This decrease reflects savings of \$14.85 million as a result of a proposal to include the PACE/PACENET program in the National Medicaid Pooling agreement in order to receive additional pharmaceutical rebates. It also reflects a savings of nearly \$5 million as a result of anticipated federal changes to the Medicare part D program that would reduce the amount which the PACE Plus program pays for doughnut hole coverage for its participants.

The proposed budget level funds the **Property Tax and Rent Rebate (PTRR)** program at \$276.5 million. An estimated 591,000 households are expected to receive property tax or rent assistance in 2010/11.

The Governor once again recommends using \$178.438 million of Lottery Funds to help pay for the **Medical Assistance long term care** program, the same amount as 2009/10.

Tobacco Settlement Fund

Overview

The Executive 2010/11 Budget spends a total of \$354 million in Tobacco Settlement Fund revenues for health-related programs. Revenues include:

- \$315 million in payments remitted by tobacco companies to Pennsylvania during 2009/10;
- \$15 million of interest and earnings from the Tobacco Settlement Fund and the Health Endowment Account; and
- \$24.2 million in strategic contribution payments received by Pennsylvania in 2010.

Another \$264.8 million of Tobacco Settlement funds are transferred to the General Fund in 2010/11 in accordance with provisions set forth in Act 50 of 2009. Specifically, Act 50 transferred \$150 million from the Endowment Account in 2009/10 and \$250 million in 2010/11. It also transferred 37.5% of the annual allocation for Tobacco Use Prevention and Cessation programs to the General Fund in both 2009/10 and 2010/11.

For 2009/10, Act 50 included provisions that redirected the following tobacco fund revenues for Medical Assistance Long Term Care and Life Sciences Greenhouses: 25 percent of the annual allocation for Tobacco Use Prevention and Cessation programs; one-third of the annual funding allocation for Health Investment Insurance; 100 percent of the annual funding allocation for the Endowment Account; the annual strategic contribution payment; and tobacco fund interest and earnings. The Executive Budget proposes to continue these provisions in order to redirect \$108.4 million of tobacco revenues in 2010/11.

- The table below details proposed 2010/11 Tobacco Settlement Fund expenditures, which total \$972.8 million. This includes the \$245.6 million allocated to the various health related programs established in Act 70, the funds redirected to other programs (Medical Assistance Long Term Care and Life Sciences Greenhouses), and the transfers to the General Fund.

Tobacco Settlement Fund (\$s in thousands)	FY 2010/11
Funding for Act 77 Programs	
Health Investment Insurance for Adults	\$ 65,950
<i>adult Basic Health Insurance Program</i>	15,587
<i>Medical Care for Workers with Disabilities</i>	50,363
Health Research	\$ 62,621
Home and Community-Based Services	\$ 42,846
Tobacco Use Prevention and Cessation	\$ 14,831
Hospital Uncompensated Care program	\$ 32,958
PACEnet Transfer	\$ 26,367
Health Endowment Account	\$ -
Subtotal - Act 77 Programs	\$ 245,573
Funding Redirected to Other Programs	
Medical Assistance - Long Term Care	\$ 105,411
Life Sciences Greenhouse	\$ 3,000
Subtotal - Other Programs	\$ 108,411
Transfers to General Fund *	
Tobacco Use Prevention and Cessation	\$ 14,831
Health Endowment Account	\$ 250,000
Subtotal - General Fund	\$ 264,831
TOTAL EXPENDITURES	\$ 972,799

* The transferred funds are not earmarked for any specific purpose.

adultBasic: the Tobacco Settlement Fund and the Community Health Reimbursement Fund

The adultBasic program provides state-funded low-cost health insurance coverage for low-income working adults on a “first-come, first-served” basis. Adults ages 19-64 with household income levels below 200 percent of the federal poverty level guidelines (FPIG) may be eligible for coverage if they are not otherwise covered by health insurance and do not qualify for Medicaid. Enrollees are required to contribute toward the cost of health insurance through a monthly premium contribution and pay any applicable co-payments.

Due to limited funding sources and high demand, a waiting list has been necessary. As of January 2010, 40,685 adults were enrolled in the program statewide, but the waiting list included over 369,112 adults. Adults on the waiting list may choose to purchase coverage at-cost until an offer for enrollment is made. As of January 1, 2010, approximately 3,500 individuals currently on the waiting list were purchasing coverage at full cost. The proposed budget anticipates that 50,000 adults will be served in the program during 2010/11.

Under the Tobacco Settlement Act of 2001, funding was made available for the adultBasic program. In 2009/10, \$37.9 million in Tobacco Settlement Funds was allocated to the program. Beginning in 2005/06, the Commonwealth was able to supplement Tobacco Settlement Funds for adultBasic with **Community Health Reinvestment (CHR)** funds. This funding stream is the result of the CHR Agreement with the four major Blue Cross and Blue Shield Plans serving Pennsylvania. Under the agreement, the Blue Plans pledged an ongoing commitment of funds over six years (calendar years 2005-2010). In 2009/10, \$113 million in CHR funding was allocated to the adultBasic program.

In January 2010, the Insurance Department announced changes in premiums and benefits for the adultBasic program, effective in March 2010. These cost-containment measures are necessary in order to maintain current enrollment numbers within the funding amounts available.

The changes to adultBasic include:

- Increased enrollee monthly premium contributions (from \$35 to \$36) and doubled co-payments;
- Coinsurance for all services without a co-payment to a maximum of \$1,000 per year (including services which did not carry a charge to enrollees previously);
- And an increased monthly premium for all persons on the waiting list wishing to purchase coverage “at-cost” (from \$330 to \$600).

The proposed 2010/11 budget includes \$15.6 million in Tobacco Settlement Funds and over \$180 million in CHR funding for the adultBasic program. The proposed budget assumes the aforementioned program changes effective in March 2010 and available funding sources for the program, including an assumption that the CHR agreement will continue. Please note, as mentioned above, the budget continues to redirect a portion of the funding available for Health Investment Insurance to offset costs for Long Term Care. The adultBasic shares the portion of Tobacco Settlement Funds for Health Investment Insurance with the Medical Care for Workers with Disabilities (MAWD) appropriation, an entitlement program. As costs for the MAWD program grow, the amount of Tobacco Settlement Funds for adultBasic is reduced.

Property Tax Relief Fund

Homeowners will continue to receive nearly \$200 on average in broad-based property tax relief in 2010/11, which is based on a total of \$613.7 million in gaming revenue from casinos. This is equal to the amount dispersed for property and wage tax relief in 2009/10 and includes wage tax relief for Philadelphia. The Property Tax/Rent Rebate program will provide \$129.1 million in property tax and rent rebates for nearly 600,000 older Pennsylvanians. In addition, older Pennsylvanians who pay a significant portion of their income in property taxes or who live in high property tax areas will receive additional targeted property tax relief totaling \$26.9 million in 2010/11.

Overall there is expected to be \$769.7 million in total disbursements for property tax, wage tax, and property tax rent rebate relief in 2010/11. This is \$19.8 million more than the amount disbursed in 2009/10.

Table 1. State General Fund Budget Comparison, By Agency (\$ Thousands)

Agency	FY 2008-09	FY 2009-10	FY 2010-11	FY 2010-09 less FY 2009-10	
	Actual	Available *	Budget	\$ Change	% Change
Governor's Office	\$7,293	\$6,900	\$6,831	-\$69	-1.0%
Executive Offices	\$254,299	\$204,486	\$183,989	-\$20,497	-10.0%
Lieutenant Governor	\$1,428	\$1,075	\$1,053	-\$22	-2.0%
Attorney General	\$94,509	\$86,522	\$85,657	-\$865	-1.0%
Auditor General	\$54,520	\$48,303	\$48,070	-\$233	-0.5%
Treasury	\$955,348	\$976,792	\$1,071,673	\$94,881	9.7%
Agriculture	\$76,085	\$67,830	\$62,435	-\$5,395	-8.0%
Community & Economic Development	\$567,519	\$264,848	\$286,414	\$21,566	8.1%
Conservation & Natural Resources	\$113,369	\$92,369	\$91,375	-\$994	-1.1%
Corrections **	\$1,605,505	\$1,612,329	\$1,749,168	\$136,839	8.5%
Education - Preferred Appropriations **	\$10,037,996	\$9,470,344	\$9,914,711	\$444,367	4.7%
Education - Nonpreferred Appropriations **	\$728,020	\$689,233	\$687,659	-\$1,574	-0.2%
Environmental Protection	\$217,515	\$159,056	\$155,208	-\$3,848	-2.4%
General Services **	\$117,868	\$120,175	\$123,249	\$3,074	2.6%
Health (includes Nonpreferreds)	\$272,938	\$239,147	\$232,183	-\$6,964	-2.9%
Insurance	\$117,432	\$123,635	\$126,570	\$2,935	2.4%
Labor & Industry (includes Nonpreferreds)	\$120,650	\$92,045	\$88,961	-\$3,084	-3.4%
Military and Veterans Affairs	\$127,000	\$111,276	\$115,646	\$4,370	3.9%
PA Higher Education Assistance Agency	\$472,873	\$455,170	\$455,170	\$0	0.0%
Public Welfare - No agency reorganization **	\$9,426,357	\$8,727,833	\$9,152,207	\$424,374	4.9%
<i>Aging - Proposed transfer of DPW programs **</i>	<i>\$836,236</i>	<i>\$806,484</i>	<i>\$842,979</i>	<i>\$36,495</i>	<i>4.5%</i>
Revenue	\$181,509	\$198,602	\$203,881	\$5,279	2.7%
State	\$12,465	\$10,148	\$9,648	-\$500	-4.9%
State System Higher Education **	\$497,168	\$465,197	\$465,197	\$0	0.0%
Thaddeus Stevens College of Technology **	\$10,293	\$8,550	\$8,550	\$0	0.0%
Transportation	\$11,720	\$11,013	\$12,033	\$1,020	9.3%
State Police	\$182,305	\$182,664	\$184,697	\$2,033	1.1%
Civil Service Commission	\$1	\$1	\$1	\$0	0.0%
Emergency Management & Homeland Security	\$22,142	\$15,494	\$12,448	-\$3,046	-19.7%
Fish & Boat Commission	\$17	\$17	\$17	\$0	0.0%
Historical & Museum Commission (includes Nonpreferreds)	\$31,895	\$22,105	\$19,348	-\$2,757	-12.5%
State Environmental Hearing Board	\$1,710	\$1,708	\$1,805	\$97	5.7%
PA Probation & Parole Board	\$111,605	\$117,664	\$125,842	\$8,178	7.0%
Securities Commission	\$1,782	\$1,400	\$1,386	-\$14	-1.0%
State Tax Equalization Board	\$1,207	\$1,159	\$1,147	-\$12	-1.0%
State Employees' Retirement System	\$4	\$4	\$4	\$0	0.0%
PA Housing Finance Agency	\$12,234	\$11,000	\$10,890	-\$110	-1.0%
Legislature	\$330,633	\$303,850	\$301,411	-\$2,439	-0.8%
<u>Courts</u>	<u>\$307,141</u>	<u>\$276,860</u>	<u>\$276,860</u>	<u>\$0</u>	<u>0.0%</u>
TOTAL GENERAL FUND	\$27,084,355	\$25,176,804	\$26,273,394	\$1,096,590	4.4%
Preferred Appropriations - State Subtotal	\$26,339,473	\$24,473,228	\$25,564,604	\$1,091,376	4.5%
Nonpreferred Appropriations - State Subtotal	\$734,278	\$690,712	\$687,659	-\$3,053	-0.4%
Executive Authorizations - Subtotal	\$10,604	\$12,864	\$21,131	\$8,267	64.3%

* FY 2009-10 reflects enacted budget and does not include proposed supplemental appropriations.

** These agency budgets utilize federal ARRA funds which reduce the need to spend state General Funds in FY 2008/09, FY 2009/10 and FY 2010/11. Consequently, comparisons between years is misleading as this table only reports General Funds. Please see Table 2 which shows total State General Funds and ARRA funds budgeted for these agencies.

**Table 2. State General Fund and Federal ARRA Funds
(Dollars in Thousands)**

Agency/ Appropriations	FY 2008-09	FY 2009-10	FY 2010-11	FY 2010-09 less FY 2009-10	
	Actual	Available *	Budget	\$ Change	% Change
Corrections	\$ 1,605,505	\$ 1,785,240	\$ 1,922,079	\$136,839	7.7%
State General Fund	1,605,505	1,612,329	1,749,168		
ARRA Fiscal Stabilization	-	172,911	172,911		
Education - Preferred Appropriations	\$ 10,037,996	\$ 10,146,615	\$ 10,590,982	\$444,367	4.4%
State General Fund	10,037,996	9,470,344	9,914,711		
ARRA Fiscal Stabilization - Basic Education	-	654,747	654,747		
ARRA Fiscal Stabilization - Higher Education	-	21,524	21,524		
Education - Nonpreferred Appropriations	\$ 763,397	\$ 720,451	\$ 718,877	-\$1,574	-0.2%
State General Fund	728,020	689,233	687,659		
ARRA Fiscal Stabilization - Higher Education	35,377	31,218	31,218		
General Services	\$ 117,868	\$ 120,675	\$ 123,749	\$3,074	2.5%
State General Fund	117,868	120,175	123,249		
ARRA Fiscal Stabilization	-	500	500		
Public Welfare - No Agency Reorganization	\$ 10,602,980	\$ 10,504,515	\$ 10,986,936	\$482,421	4.6%
State General Fund	9,426,357	8,727,833	9,152,207		
ARRA FMAP (Enhanced Medicaid Match)	1,176,623	1,776,682	1,834,729		
<i>Aging and Long-Term Living - Proposed Transfer of DPW Programs</i>	\$ 1,166,940	\$ 1,251,085	\$ 1,319,824	\$68,739	5.5%
State General Fund	836,236	806,484	842,979		
ARRA FMAP (Enhanced Medicaid Match)	330,704	444,601	476,845		
State System Higher Education	\$ 524,236	\$ 503,355	\$ 503,355	\$0	0.0%
State General Fund	497,168	465,197	465,197		
ARRA Fiscal Stabilization - Higher Education	27,068	38,158	38,158		
Thaddeus Stevens College of Technology	\$ 10,700	\$ 10,876	\$ 10,876	\$0	0.0%
State General Fund	\$10,293	\$8,550	\$8,550		
ARRA Fiscal Stabilization - Higher Education	407	2,326	2,326		

* FY 2009-10 reflects enacted budget plus supplemental appropriations.