



A Quick Glance at Key Issues from the
House Appropriations Committee (D)

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2013/14 Governor's Executive Budget Proposal

Gov. Tom Corbett is recommending some very comprehensive and questionable policy changes, changes that will have a dramatic impact on the Pennsylvania economy, not to mention our own state fiscal picture. Policymakers should be concerned about the ramifications of:

- A **seriously underfunded education** system and the long-term consequences on Pennsylvania's ability to compete in the global economic market place.
 - Liquor store privatization and the **use of one-time funds from privatization to shore up the education budget**; the dependence on increased liquor consumption to generate growth in liquor tax revenue; and no serious attempt to generate significant revenue by first simply modernizing the current liquor store system.
 - **No additional health care under Medicaid expansion** that would keep tens of billions of federal funds from flowing into Pennsylvania, preventing an economic spinoff associated with new jobs and additional state and local tax revenue.
 - **Lottery privatization and the generous compensation terms under the Camelot agreement**, as every dollar to Camelot is one fewer dollar to senior programs under the lottery. Increases in lottery programs for seniors appear to be a win at first, but in reality are much less than increases in the prior year.
 - A **failure to adequately and timely address Pennsylvania's transportation deficiencies** – highways, bridges and mass transit - destroying the quality of life upon which successful businesses, schools and jobs depend. Out of a more than \$4.5 billion need, the governor's proposal will raise only about \$500 million in the first year. Even five years from now, the governor's proposal is a fraction of the unmet transportation funding need identified in the Transportation Funding Advisory Commission report.
 - A proposal that **breaks promises to public servants** about their retirement accounts in an attempt to bestow favors for corporate special interests; a proposal that tinkers with retirement plans for current employees sure to be mired in legal challenges; a **budget balanced on theoretical pension savings** that the courts may well overturn; a plan that delays the employers' responsibility to pay off pension debt, a **burden shifted to the next generation**; a plan to **increase costs further** by simultaneously running two styles of pension plans -- the current defined benefit plan and a defined contribution plan.
 - A **loss of additional state public service jobs** - 900 in authorized positions - on the heels of a 17,000 loss in education jobs due to budget cuts during Gov. Corbett's first two years and a 1,811 loss in state public service jobs. Remember, Gov. Corbett's number one priority when he took office was job creation.
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- A **refusal to consider reasonable and dependable revenue streams** to address damage to core public services; revenue from sources like a real severance tax on natural gas, a smokeless tobacco tax and closing the Delaware loophole.

Although much emphasis is placed on the **General Fund budget**, in which the governor’s proposal spends **\$28.4 billion**, when you consider all state (general, special, federal and other funds) and federal funds, the governor’s proposal represents a **total commonwealth operating budget of \$66.7 billion**.

The proposed state General Fund budget of \$28.4 billion increases state expenditures by \$678.8 million, or 2.4 percent. This increase does not tell the full story since Gov. Corbett proposes to shift some General Fund spending to other special funds, funds that increase altogether by almost \$816 million, or 7.5 percent. At the same time, federal funds decrease by \$644.5 million, or 2.9 percent. The total commonwealth operating budget of \$66.7 billion reflects a **total increase of only 1.5 percent** compared to the prior year and only a 1.7 percent increase compared to the 2010/11 fiscal year before Gov. Corbett took office.

The General Fund revenue estimate for the current 2012/13 fiscal year is adjusted upward by \$232 million. This increase in conjunction with \$100 million in prior year lapses (unspent funds) and supplemental appropriations of approximately \$95.9 million, contribute to an ending balance surplus of \$543.6 million at the end of fiscal year 2012/13, which carries forward to the beginning of the 2013/14 budget year.

Gov. Corbett’s fiscal year 2013/14 budget projects **General Fund revenue growth of 1.3 percent**, whereas growth in the current year (2012/13) compared to the prior year (2011/12) is estimated to be 4.1 percent. The budget year revenue growth rate of 1.3 percent does not include Gov. Corbett’s proposed revenue modifications, which add an estimated \$2.3 million in new tax increases and \$44.5 million in non-tax revenue transfers to the General Fund from the Motor License Fund and the Race Horse Development Fund. For more details on the governor’s proposed revenue modifications, refer to the section on Tax and Revenue Changes on Page 19.

For a quick reference, key points in Gov. Corbett’s 2013/14 budget proposal are outlined in this document. The House Appropriations Committee (D) will provide further briefings on specific issues and program areas, as more details become available.

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Education

Policymakers should be concerned about the ramifications of a seriously underfunded education system and the long-term consequences on Pennsylvania's ability to compete in the global economic market place.

K-12

For a second time, Governor Corbett's budget locks in the nearly \$1 billion in cuts to education enacted in his 2011/12 budget. Please note, the minor increases outlined below do not significantly reverse these cuts.

Gov. Corbett's budget proposes to increase the following three appropriations:

- The **basic education subsidy**, the largest appropriation in the education budget, is funded at \$5.49 billion, an increase of \$90 million or about 1.7 percent. Although this is a record-high for the governor, it remains a substantial reduction as compared to 2010/11, the last budget prior to the Corbett administration when the basic education subsidy formula drove out nearly \$5.8 billion to school districts.
- The **Pre-K Counts** program which provides early learning opportunities for children receives a 5.4 percent increase of \$4.5 million, for total proposed funding of \$87.3 million.
- The **Head Start Supplemental Assistance** program provides early learning opportunities to economically disadvantaged children. The proposed budget increases funding to \$39.2 million, an increase of \$1.9 million or 5.1 percent.

Gov. Corbett's budget flat funds the **Accountability Block Grant** at \$100 million, as compared to \$260 million before he took office in 2010/11.

In addition, he proposes flat funding for public libraries; adult and family literacy programs; career and technical education; services to nonpublic schools; and textbooks, materials and equipment for non-public schools. His budget also locks in the funding eliminations of two years ago for: Reimbursement of Charter Schools, Education Assistance Program, Intermediate Units, Dual Enrollment, School Improvement Grants, Science: It's Elementary, and High School Reform.

Amidst the recurring cuts and eliminations, Gov. Corbett introduces a new initiative known as the **"Passport for Learning Block Grant."** Using the revenues from a proposed sale of the commonwealth's liquor system, Gov. Corbett establishes a \$200 million restricted receipt account for this new block grant. There is no guarantee that this amount of revenue would materialize within the first year due to the uncertainty of the auction process. This assumed \$200 million would be awarded as grants to school districts, for specific eligible activities:

- School Safety Initiatives
- "Ready by 3"
- Individualized Learning
- STEM Initiatives

Grants will be awarded in the spring of 2014 for use during the 2014/15 school year.

School Employees' Retirement

Gov. Corbett's proposal reduces what is needed to properly fund school employees' retirement. Therefore, he would pass debt on to future generations; whereas, under 2010 pension reforms, Pennsylvania will pay off this debt within the current generation. Specifically, the proposed \$1.08 billion in the appropriation for the Public School Employees Retirement Fund falls short of the current statutory requirement. Rather than implement the 4.5 percent increase in the employer contribution rate, Gov. Corbett has assumed only one-half of that increase, or 2.25 percent. The legislature must enact changes to the retirement code in order to implement this reduction.

Higher Education

Public institutions of higher education saw major reductions in Gov. Corbett's first two budgets, with community colleges being cut by 10 percent, the State System of Higher Education being cut by 18 percent, the state-related universities being cut by 19 percent and Thaddeus Stevens College of Technology being cut by 5 percent. This past fall, the Governor's Advisory Commission on Postsecondary Education concluded that the current funding levels should not be reduced because further cuts will result in serious harm to Pennsylvania's colleges and universities. Gov. Corbett's proposed 2013/14 budget makes no progress in restoring any of these cuts to higher education by flat funding appropriations at 2012/13 levels, including:

- Community Colleges: \$212.16 million
- State System of Higher Education: \$412.75 million
- Penn State University: \$227.69 million (not including agricultural funding)
- University of Pittsburgh: \$136.07 million
- Temple University: \$139.91 million
- Lincoln University: \$11.16 million
- Thaddeus Stevens College of Technology: \$10.33 million

Again, while appearing to be level-funded when compared to the current year, higher education funding remains in a large hole since Governor Corbett took office, as shown on the following chart.

Dollars in thousands	2010/11 Actual	2013/14 Budget	Budget Less 2010/11 Actual	% Cut Under Corbett
Community Colleges	\$ 235,741	\$ 212,167	\$ (23,574)	-10%
State	\$ 214,217	\$ 212,167	\$ (2,050)	-1%
Federal ARRA	\$ 21,524		\$ (21,524)	-100%
State System of Higher Education	\$ 503,355	\$ 412,751	\$ (90,604)	-18%
State	\$ 465,197	\$ 412,751	\$ (52,446)	-11%
Federal ARRA	\$ 38,158		\$ (38,158)	-100%
Penn State University**	\$ 281,244	\$ 227,694	\$ (53,550)	-19%
State	\$ 265,453	\$ 227,694	\$ (37,759)	-14%
Federal ARRA	\$ 15,791		\$ (15,791)	-100%
University of Pittsburgh	\$ 167,995	\$ 136,076	\$ (31,919)	-19%
State	\$ 160,490	\$ 136,076	\$ (24,414)	-15%
Federal ARRA	\$ 7,505		\$ (7,505)	-100%
Temple University	\$ 172,737	\$ 139,917	\$ (32,820)	-19%
State	\$ 164,974	\$ 139,917	\$ (25,057)	-15%
Federal ARRA	\$ 7,763		\$ (7,763)	-100%
Lincoln University	\$ 13,782	\$ 11,163	\$ (2,619)	-19%
State	\$ 13,623	\$ 11,163	\$ (2,460)	-18%
Federal ARRA	\$ 159		\$ (159)	-100%
Thaddeus Stevens	\$ 10,876	\$ 10,332	\$ (544)	-5%
State	\$ 8,550	\$ 10,332	\$ 1,782	21%
Federal ARRA	\$ 2,326		\$ (2,326)	-100%

* Not including agricultural research and agriculture extension, though appropriated as part of General Support in 2010/11.

Liquor

Policymakers should be concerned about the ramifications of Liquor store privatization and the use of one-time funds from privatization to shore up the education budget; the dependence on increased liquor consumption to generate growth in liquor tax revenue; and no serious attempt to generate significant revenue by first simply modernizing the current liquor store system.

On Jan. 30, 2013, Gov. Corbett unveiled his proposal to privatize the liquor system in Pennsylvania by selling off the retail and wholesale functions of the Liquor Control Board. The plan would require the 600 current wine and spirits stores to be closed and would auction 1,200 licenses for privately owned wine and spirits stores. Wholesale operations would be sold off by allowing each wholesaler to purchase exclusive rights to each brand of liquor using a formula based on a blended brand valuation. New license classifications would be created, allowing sales of wine and beer at big-box retailers, grocery stores, pharmacies and convenience stores. In addition, an enhanced distributor license would allow beer distributors to sell wine and six-packs of beer. Beer distributors would also be eligible to purchase, at auction, a wine and spirits license.

The governor estimates approximately \$1 billion in one-time revenue, over the course of four years, from the auction and sale of the retail and wholesale licenses. This revenue, labeled as the "Passport for Learning Block Grant," would be used to provide education block grants. Grants to school districts would be available beginning in the 2014/15 school year.

Note that the Governor's Executive Budget document for the Liquor Control Board does not reflect the changes of the privatization plan recently proposed by the governor. Therefore further analysis will be provided as more details become available.

Health and Human Services

Policymakers should be concerned about the ramifications of no additional health care under Medicaid expansion that would keep tens of billions of federal funds from flowing into Pennsylvania, preventing an economic spinoff associated with new jobs and additional state and local tax revenue.

Department of Public Welfare

The 2013/14 Executive Budget requests \$10.97 billion in state General Funds for the Department of Public Welfare (DPW). This represents a 3 percent increase (\$315 million) from 2012/13, which includes a \$69 million state supplemental request. **The proposed budget does not expand Medicaid as allowed under the Affordable Care Act.**

As summarized in the nearby table, the proposed 2013/14 DPW budget reflects the impact of several measures that reduce the need to spend state General Funds by \$449 million. Without these measures, the General Fund budget request would have been significantly larger.

- The savings anticipated from new initiatives proposed for 2013/14, including: Medical Assistance (MA) audit enhancements, outsourcing third party liability functions in the MA program, and reforming salary benefits for certain employees injured on the job at facilities operated by DPW. It also includes proposed savings from the implementation of premiums for MA benefits provided to "loophole" kids from families above 100 percent of federal poverty -- this proposal is an alternative to the co-payments that were proposed in 2012/13.
- The additional savings associated with annualizing the various cost containment measures -- such as the statewide expansion of HealthChoices managed care to 42 new counties and the changes in General Assistance eligibility for Medical Assistance benefits -- that were implemented during 2012/13.
- The use of revenue sources, such as money from the Tobacco Settlement Fund and prior year federal funds received by DPW, that reduce the need to spend state General Funds for agency expenditures.
- Various other cost savings, including administrative and cash flow savings and the elimination of projects added by the General Assembly to various DPW appropriations in the 2012/13 budget.

The proposed 2013/14 budget reflects the impact of the following cost drivers, which more than offset the above cost saving measures:

- Increased costs and utilization of services, including proposed rate increases for managed care organizations and nursing facilities (\$460 million).
- The scheduled reduction in Pennsylvania's federal medical assistance percentage from 54.28 percent to 53.52 percent, effective Oct. 1, 2013, which will increase the state share of expenditures in Medical Assistance and other Medicaid programs administered by DPW (\$168 million).
- The need to replace other non-recurring revenues, such as prior year state and federal funds, that were used to pay for 2012/13 expenditures, but won't be available in 2013/14 (\$102 million).

- New initiatives in 2013/14, including the proposed expansion of community based-services for disabled individuals (\$46 million) and the required information technology enhancements to implement various provisions of the Affordable Care Act (\$13.5 million).

Select Cost Saving Measures in 2013/14 Executive Budget		\$ Millions
New Initiatives Proposed for 2013/14:		\$ 33.3
Audit enhancements -- Medical Assistance (MA) providers	20.0	
Implementing premiums for MA coverage provided to "loophole kids"	8.3	
Outsourcing third party liability functions in the MA program	1.5	
Act 534/632 reforms limiting salary benefits for certain employees injured on the job at facilities operated by DPW	3.5	
Annualization of Initiatives Implemented in 2012/13:		\$ 246.0
Changes in General Assistance MA eligibility	70.3	
Statewide expansion of HealthChoices managed care and other MA initiatives	162.3	
Closure of New Castle youth development center	8.6	
Cost Containment -- Attendant Care and Services to Persons with Disabilities	4.8	
Using Alternative Funds to Pay for Expenditures in 2013/14:		\$ 109.0
Prior Year Federals - MA Capitation	75.0	
Prior Year Federals - County Administration Statewide	3.0	
Tobacco Settlement Fund - Medical Assistance for Workers with Disabilities	31.0	
Other Savings		\$ 61.0
Administrative and Cash Flow Savings (MA Outpatient and MA Inpatient)	29.3	
Public/Private partnership project (MA Outpatient)	28.4	
Autism Intervention and Services (eliminates legislative add in 2012/13)	0.7	
Health Care Clinics (eliminates legislative add in 2012/13)	1.0	
Physician Practice Plans (eliminates legislative add in 2012/13)	1.5	
GRAND TOTAL		\$ 449.3

Medical Assistance

Governor Corbett's proposed budget requests \$4.3 billion in state General Funds for health care services in Medical Assistance (the name of Pennsylvania's Medicaid program), a decrease of \$78.6 million compared to 2012/13. Total funds (state, federal and other funds) requested are \$13.4 billion, a decrease of \$93 million.

(Dollars in Millions)

Medical Assistance Health Care Appropriations	State General Funds		Total Funds	
	Proposed for 2013/14	Change from 2012/13	Proposed for 2013/14	Change from 2012/13
MA - Capitation	3,830.192	207.383	10,572.592	581.281
MA- Outpatient	369.311	(170.333)	1,507.554	(248.732)
MA - Inpatient	121.719	(99.208)	1,068.856	(439.302)
MA for Workers with Disabilities	18.645	(16.411)	241.524	13.603
TOTAL - MA Acute Care	4,339.867	(78.569)	13,390.526	(93.150)

The funding levels for 2013/14 reflect the impact of various MA program changes enacted in 2012/13, in particular the MA eligibility changes for chronically ill adults in the General Assistance (GA) program and the movement to statewide managed care.

- The MA eligibility revisions have significantly reduced GA caseload from a monthly average of 135,000 in 2012/13 to just 70,000 enrollees in December 2012.

- Statewide expansion of HealthChoices managed care is being phased in to encompass the 42 counties in which the program had not previously operated. This is expected to move 400,000 MA recipients from the fee-for-service program (funded through the MA Outpatient and MA Inpatient appropriations) to the HealthChoices managed care program (funded through the MA Capitation appropriation). Effective July 1, 2012, seven counties were incorporated into two of the existing HealthChoices zones - the Southwest Zone and the Lehigh/Capital Zone. The remaining 35 counties were divided into two new zones - the new HealthChoices West Zone began operating Oct. 1, 2012 in 13 counties located in the northwest region and the new HealthChoices East Zone will begin operating March 1, 2013, in 22 counties located in the northeast and north central regions.

The proposed budget projects average monthly MA caseload increases by 66,000 individuals in 2013/14 to 2,322,820. This represents annual growth of 2.9 percent to the current Medicaid program.

Approximately 1.64 million average monthly enrollees will receive physical health care services through HealthChoices managed care and the remaining 685,000 enrollees will receive care through the fee-for-service program.

- At this time, **we do not know how much of the projected caseload growth reflects the “woodwork effect” associated with implementation of major provisions in the Affordable Care Act (ACA)** that simplify Medicaid enrollment and eligibility processes. These ACA requirements, together with the January 2014 implementation of the health insurance exchanges, will contribute to higher enrollments (the woodwork effect) among adults and children who already meet current Medicaid requirements.
- What we do know is that Gov. Corbett has not proposed expanding Medicaid eligibility, as allowed under the ACA, to include all individuals with income up to 138 percent of poverty. It has been estimated that such expansion would extend MA coverage to more than 500,000 Pennsylvanians (primarily adults). NO state funds are required to fund the MA coverage that would be provided to newly eligible enrollees who qualify for MA under the expanded income limits – the federal government pays 100 percent of costs for these individuals in 2014, 2015 and 2016. Failure to implement Medicaid expansion in 2014 will not only deny health care coverage to nearly half a million Pennsylvanians, it will block the inflow of several billion dollars of federal funds into Pennsylvania’s economy.

Governor Corbett’s proposed budget includes **additional state funding to provide MA rate increases for managed care organizations and nursing facilities:**

- \$117.6 million is budgeted for managed care rate increases, including a 2 percent increase in statewide rates paid to physical health managed care organizations and a 1.5 percent increase in statewide rates paid to behavioral health managed care organizations.
- \$44.3 million is budgeted for a 2 percent increase in per diem rates paid to nursing facilities.

The Executive Budget provides for extension of the two hospital assessments – the statewide hospital assessment and the Philadelphia hospital assessment – that are set to expire after June 30, 2013. Revenue generated from the statewide hospital assessment was used to reduce state spending on MA Inpatient services by \$109 million in 2012/13. At this time, we have no detail on the extended assessment in terms of what the rate of assessment would be or how the revenues generated would be used to offset state spending, support MA hospital reimbursements, and fund supplemental hospital payments.

Community-Based Services for Elderly and Disabled Pennsylvanians

The proposed 2013/14 DPW budget includes \$54.1 million in state funding to expand home and community based services as an alternative to institutional care for 4,618 elderly and disabled Pennsylvanians. Of this amount, nearly \$46 million of General Fund revenue is requested to provide the following services to 3,068 adults with disabilities:

- \$4.73 million to provide community placement of 90 individuals currently residing in a state mental hospital;
- \$19.87 million to provide community waiver services for 1,180 individuals with intellectual disabilities, including 380 people on county waiting lists, 700 graduates from special education programs, and 100 people who currently reside in a state ID center;
- \$15.76 million to provide community waiver services to 1,280 individuals with severe physical disabilities;
- \$4.13 million to provide attendant care waiver services to 400 individuals with physical disabilities; and
- \$1.5 million to provide community services to 118 adults with autism.

Additionally, the governor requests that \$8.13 million of Lottery Fund revenue be used to provide Aging Waiver services to 1,550 elderly Pennsylvanians.

Indeed, it is good to see that the Corbett administration is willing to spend state funds to expand community-based long term care services so that 4,618 Pennsylvanians can live safely in their homes and avoid entering a nursing home, which is a more costly and restrictive setting. However, remember that **at no additional state cost**, the administration could opt to expand Medicaid so that half a million low-income uninsured Pennsylvanians could obtain health care coverage beginning January 2014.

County Human Service Programs

It appears that the Executive Budget flat funds the money for county-run human services programs that can be block-granted under the pilot program enacted in the 2012/13 budget which includes: community mental health services, behavioral health services, Act 152 drug and alcohol treatment services, community intellectual disability base services, homeless assistance, and the human services development fund. The Executive Budget continues to fund each of these programs as individual appropriations.

For 2013/14, the Corbett administration recommends expanding the 20 county pilot programs to a statewide pilot program under which counties may participate voluntarily. Section 1402-B of the Public Welfare Code currently stipulates that no more than 20 counties may participate in the block grant in any fiscal year. Consequently, the proposed expansion of the pilot to include more counties requires legislation.

Other Areas

Gov. Corbett's budget increases funding for **Supplemental Grants – Aged, Blind and Disabled** by \$4.44 million as a result of caseload increases.

Gov. Corbett's budget assumes savings (\$8.56 million) from the closure of the **Youth Development Center** (YDC) in New Castle which he then redistributes to cover costs related to Juvenile Justice Reinvestment.

Gov. Corbett's budget seeks **Act 534/632 reforms**, limiting special workers' compensation (full-salary) benefit payments to employees injured as a result of contact with residents at state mental hospitals, youth development centers and state centers for the intellectually disabled to three years, instead of in perpetuity.

Gov. Corbett's budget includes an additional \$23.3 million under **County Child Welfare**, reflecting increases in counties' needs-based budgets for 2013/14.

Gov. Corbett's budget includes an additional \$1.26 million for **Domestic Violence** programs, when compared with 2012/13 funding. In addition, his budget includes an additional \$700,000 for **Rape Crisis** programs. Both programs had seen funding cuts and/or stagnant funding over the past several years while demand for services has increased.

Gov. Corbett's first two budgets cut state funding for **child care programs** by \$63.2 million or 17.5 percent. As part of those cuts, during 2012/13, DPW is consolidating the 59 county and local Child Care Information Services (CCIS) offices into 42 service areas, including some that will serve multiple counties.

Governor Corbett's 2013/14 budget uses the carry-over savings of \$7.119 million to increase subsidized child care openings by 1,400 children and provide enhanced incentives for providers participating in the **Keystone STARS** program's Rising Stars initiative. As of October 2012, 6,658 children were on the waiting list for subsidized child care services.

Tobacco Settlement Fund

The 2013/14 Executive Budget allocates \$331.6 million of Tobacco Settlement Fund revenue to health-related activities. This is \$5.8 million less than in 2012/13, reflecting the reduction in payments that Pennsylvania anticipates receiving from tobacco manufacturers.

(Dollars in Millions)

Use of Tobacco Settlement Fund	2013/14 Proposed	Increase / (Decrease)
Act 77 Programs:		
Health Insurance for Adults - MAWD	\$ 93.2	\$ 29.9
Health Research	\$ 43.0	\$ 43.0
<i>Broad-Based Health Research</i>	39.1	(0.7)
<i>Cancer Research</i>	3.1	(0.1)
Home and Community-Based Services	\$ 40.4	\$ (0.7)
Tobacco Use Prevention and Cessation	\$ 14.0	\$ (0.2)
Hospital Uncompensated Care program	\$ 25.4	\$ (0.4)
PACEnet Transfer	\$ 24.8	\$ (0.4)
Other Health-Related Programs:		
Medical Assistance - Long Term Care	\$ 88.6	\$ (33.1)
Life Sciences Greenhouses	\$ 3.0	\$ -
Total	\$ 331.6	\$ (5.8)

Gov. Corbett proposes the following funding changes in order to redirect a total of \$91.57 million to Long-Term Care (\$88.57 million) and Life Sciences Greenhouses (\$3 million):

- Reduces the funding allocations for **Tobacco Use Prevention and Cessation Activities** by 62.5 percent (or \$23.3 million), for **Uncompensated Care Payments** to hospitals by 18.2 percent (or \$5.7 million), for **health and related research** by 30 percent (or \$16.8 million), and for the **Health Endowment Account** by 100 percent (or \$24.8 million) – these are the same percentage reductions used in 2012/13.
- Redirects the **Strategic Contribution Payment** (\$21 million) that otherwise would be deposited into the Health Endowment Account – this same action was taken in 2012/13.

Money that was previously redirected from health insurance for uninsured adults to Medical Assistance Long-Term Care will remain in the Tobacco Settlement Fund to support the **Medical Assistance for Workers with Disabilities** (MAWD) program. MAWD is one of the two programs created under the Tobacco Settlement Act to provide health insurance for adults and to share the annual allocation that the act stipulated for this purpose. The other program was adultBasic that was previously administered by the Insurance Department until Gov. Corbett eliminated the program in February 2011.

Department of Drug and Alcohol Programs

Gov. Corbett's budget funds the Department of Drug and Alcohol Programs at 2012/13 levels. Remember, in 2010/11, Assistance to Drug and Alcohol Programs was funded at \$41.7 million. When compared with the \$41.23 million in 2012/13 and 2013/14, these programs have been cut by \$466,000 or 1.1 percent. Meanwhile, demand for these treatment programs continues to grow.

eHealth Partnership Authority

Gov. Corbett's budget reflects the passage of Act 121 of 2012 which created the eHealth Partnership Authority. The Authority was established to build and maintain a health information exchange (HIE) infrastructure and coordinate HIE projects statewide. In past years, this funding was located under Executive Offices. The act is modeled to eventually have fees cover operational costs. This budget anticipates that will occur in 2016/17, but for 2013/14, \$2.2 million in state funds (an increase of \$1.4 million) will be used for operations.

Department of Health

Gov. Corbett's budget includes \$3.42 million in savings under **State Health Care Centers** because of a modernization initiative touting "increased staff mobility and greater use of technology." Complement information for this appropriation reflects the elimination of 50 authorized positions.

While refusing to act on health care expansion that would bring billions of federal dollars for Pennsylvanians statewide, Gov. Corbett adds \$1 million to provide loan repayment awards to an additional 24 health care professionals in underserved areas under the **Primary Health Care Practitioner** program. He also adds \$4 million for a **Community-Based Health Care Subsidy** to provide grants to health care clinics to increase access to preventive primary care services.

Gov. Corbett's budget eliminates funding for **diabetes programs, biotechnology research, epilepsy support services, lupus programs, regional poison control centers, trauma programs coordination, tourette syndrome** programs and **amyotrophic lateral sclerosis (ALS)** support services.

Insurance Department

Currently all licenses, fees, miscellaneous nontax revenues, penalties, fines, assessments and settlements collected by the Insurance Department are deposited into the General Fund. Department general government operations are funded currently through the General Fund. Gov. Corbett's budget would redirect 50 percent of all licenses, fees and miscellaneous nontax revenues and 100 percent of penalties, fines, assessments and settlements (less moving violation surcharges) to a new Insurance Regulation and Oversight Fund. Department operations would then be funded through this new fund. As a result, the appropriation for general government operations under the Insurance Department is not included in the General Fund budget.

Gov. Corbett's budget reflects an additional \$3.76 million under **Children's Health Insurance Program (CHIP) Administration** to implement a centralized eligibility determination process and meet Affordability Care Act (ACA) info systems requirements.

In the **CHIP** program, Gov. Corbett's budget includes: \$3.15 million to maintain the current number of children in the program; \$1.84 million to make up for a decrease in federal matching funds; and \$8.51 million to enroll approximately 9,330 more children as a result of increased outreach efforts. From its peak enrollment of 196,525 in 2009/10, average monthly CHIP enrollment currently stands at 188,317 according to CHIP's website on Feb. 4, 2013. This is a decrease in enrollment of 8,208 children. Gov. Corbett's budget anticipates an average monthly enrollment of 200,140 in 2013/14, an increase of only 3,615 children when compared to the peak in 2009/10.

Lottery

Policymakers should be concerned about the ramifications of Lottery privatization and the generous compensation terms under the Camelot agreement, as every dollar to Camelot is one fewer dollar to senior programs under the Lottery. Increases in Lottery programs for seniors appear to be a win at first, but in reality are much less than increases in the prior year.

Gov. Corbett's proposed budget assumes that the Private Management Agreement (PMA) with Camelot Global Service will be approved and is reflected in the funding for senior programs, operating expenses to run the lottery, and profit revenue from lottery ticket sales.

- Funding for senior programs increases by \$58 million in 2013/14 – by comparison, funding for programs increased by \$110 million in 2012/13.
- Total operating expenses to run the lottery (including advertising) increase by \$33.1 million, or 44 percent in 2013/14 – this compares to a \$3.7 million increase in 2012/13.

Senior programs supported by the Lottery Fund are expected to receive approximately \$1.3 billion in total funding in the 2013/14 fiscal year as detailed in the following table. Among the programs receiving increases in the 2013/14 are **PennCARE**, grants to **senior centers**, and **Home and Community Based Services**.

- Increased funding for PennCARE would be used to provide home and community-based services to 5,400 additional people in the OPTIONS program (\$20 million), to enhance support to the Area Agencies on Aging (\$5 million), and to expand attendant care services to 193 individuals (\$2 million).
- Grants to senior centers are for the modernization of facilities and programs.
- Increased funding for Home and Community Based Services would be used to expand waiver services to an additional 1,550 elderly Medical Assistance recipients (\$8.13 million), with the balance used to fund the current waiver program (\$12.87 million).

Lottery Fund Expenditures for Senior Programs

(Dollar Amounts in Millions)

Agency / Program	Proposed FY 2013/14	Change from FY 2012/13
Department of Aging:		
PennCARE	\$275.164	\$27.000
Pre-Admission Assessment	\$10.735	-
Caregiver Support	\$12.103	-
Pharmaceutical Assistance Fund Transfer	\$190.000	-
Grants to Senior Centers	\$2.000	\$2.000
Alzheimer's Outreach	\$0.250	-
Department of Public Welfare:		
Medical Assistance Long-Term Care	\$309.081	-
Home and Community Based Services	\$21.000	\$21.000
Department of Revenue:		
Property Tax and Rent Rebate	\$292.400	\$6.300
Department of Transportation:		
Shared Ride	\$80.975	-
Free Transit	\$92.956	\$1.688
TOTAL	\$1,286.664	\$57.988

Operating expenses are budgeted at \$110 million in 2013/14, compared to \$73.2 million in 2012/13, prior to privatizing management of the lottery. The \$33 million increase in operating expenses is the net effect of various expenditure increases and decreases mainly due to the adoption of the PMA with Camelot Global Services. Gov. Corbett assumes a complement reduction of 177 Lottery employees, whose positions will be eliminated, and an expenditure reduction of approximately \$15.9 million in the operations for the lottery. The increase in operating expenses that Camelot can invoice to the lottery and the management expense fee projected to be paid to Camelot total \$38 million, and therefore the net increase in expenses associated with the PMA in 2013/14 is \$22.1 million. The remainder of the increase in administration expenditures is \$11 million for increased lottery advertising.

Net lottery collections from ticket sales (after prizes and commissions are paid) are expected to be about \$1.74 billion in fiscal year 2013/14. This is an increase of \$116.1 million, which represents growth of 7.1 percent under the assumed management of the PMA with Camelot. Note, however, growth in the prior fiscal year of 2012/13 was higher at 7.4 percent. The annual profit commitment of \$1.128 billion exactly matches the bid provided by Camelot for private management of the lottery. This represents growth of 4.5 percent over the prior year. If Camelot were to exceed this annual profit commitment, it would trigger higher rates of compensation to the company and would take away from the additional amount available to programs for senior citizens. This differs from current practice under which excess profits are deposited into the Lottery Fund and used for senior programs. It is unclear whether this annual profit commitment in the 2013/14 fiscal year includes changes to lottery games such as keno.

Transportation

Policymakers should be concerned about the ramifications failing to adequately and timely address Pennsylvania's transportation deficiencies – highways, bridges and mass transit - destroying the quality of life upon which successful businesses, schools and jobs depend. Out of a more than \$4.5 billion need, the governor's proposal will raise only about \$500 million in the first year. Even five years from now, the governor's proposal is a fraction of the unmet transportation funding need identified in the Transportation Funding Advisory Commission report.

Gov. Corbett's budget includes a transportation funding proposal, termed the "Plan for the Future". The governor's proposal includes liquid fuel tax adjustments, restructuring of Pennsylvania Turnpike Commission (PTC) annual payments, lengthening user fee renewal cycles and other adjustments. The proposal makes recommendations which follow.

Liquid Fuels Tax Adjustments

- Uncaps and phases-in over five years the average wholesale price used to calculate the Oil Company Franchise Tax at the distributor. It is reported that this change will generate \$1.45 billion by year five.
- Flat tax on liquid fuels assessed at the pump is to be reduced by two cents over two years. The 12-cent tax is decreased by one cent in 2013/14 and then by another cent in FY 2014/15 to 10 cents indefinitely. It is reported that this change will reduce revenues by roughly \$60 million in 2013/14, by \$120 million in 2014/15 and each year thereafter.

User Fees Renewal Cycles Lengthened

- Motor vehicle registration renewals would be required biennially, as opposed to annually.
- Driver's license renewals would be required every six years, as opposed to every four years.

Note, these changes do not generate more revenue, but will yield an annual savings of roughly \$5 million.

Creation of the Multimodal Transportation Division

- The Multimodal Transportation division will be created and will administer the newly established \$60 million Multimodal Transportation Fund to provide a dedicated funding source for freight rail, aviation and ports. Money for the new fund is diverted from the Motor License Fund; \$30 million from the Pennsylvania Turnpike Commission payments (as required under Act 44) and an additional \$30 million from Vehicle Code fine and penalty revenue. It is anticipated that this fund will grow to approximately \$80 million in five years.

Mass Transit

- It is anticipated that Act 44 of 2007 will be amended to provide additional operating and capital resources to public and multimodal transportation systems by redirecting turnpike payments from highway and bridge to public transportation over 5 years. It is estimated that the proposal will provide \$250 million for transit by the fifth year.
- The Port Authority will be eligible for the state Persons with Disabilities program.
- Operating assistance grants will require a 20 percent match by transit agencies (currently 15 percent).
- The local match for capital assistance grants will increase to 20 percent for transit agencies (currently 3.3 percent).
- Funding for the Capital Improvement Program will be eliminated.

A **Mapping the Future** coordination and cost-avoidance initiative is established to save \$50 million to \$75 million annually.

Where is the funding solution for mass transit?

Gov. Corbett's 2011 Transportation Funding Advisory Commission report indicates that the unmet funding need for transit was roughly \$500 million in 2010, growing to \$1.4 billion in 2020. Over this time period, the unmet need for transit is estimated to grow by \$90 million per year. The governor's funding proposal suggests providing approximately \$250 million over five years. Comparing the governor's proposal with the unmet transit needs, the "solutions" fall short by \$200 million over five years, or by roughly half of what is needed.

Law Enforcement and Justice

State Police

The Pennsylvania State Police will see an increase in their General Government Operations (GGO) funded by the General Fund and the Motor License Fund. The GGO General Fund increases by \$11.2 million to \$187.8 million and the GGO Motor License Fund increases by \$33.6 million to \$563.4 million in 2013/14.

For the entire State Police appropriation, the General Fund portion is \$205.3 million and the Motor License Fund portion is \$619.1 million for a total of \$824.4 million. The governor proposes spending \$14.7 million to fund three cadet classes for a potential total of 290 cadets. Also, \$6 million is earmarked for the hiring of 90 civilian employees that the governor says would allow more troopers to patrol rather than complete office work.

In 2012/13, 136 State Police enlisted members have retired or have announced plans to retire. About 1,200 troopers are eligible to retire by the end of June 2013. The State Police complement for 2013/14, according to the governor's budget book, is down more than 514 troopers from what the department is authorized.

Department of Corrections

Gov. Corbett proposes to increase the Department of Corrections budget by \$60.6 million for a total of \$1.9 billion in 2013/14. The **State Correctional Institution** appropriation is nearly \$50 million more than last year.

The Justice Reinvestment Initiative (JRI) is expected to reduce the prison population by 1,200 inmates and save \$139 million over the next five years. In the current year, JRI will save \$1 million with 75 percent of the savings being reinvested into victim services and a risk assessment instrument for the PA Commission on Sentencing in 2013/14. An additional \$456,000 is also being appropriated to ensure that victim services are made whole. Substantial savings from JRI are expected to begin in 2014/15.

SCI Cresson and SCI Greensburg are expected to close by June 30, 2013. SCI Benner Township is ready to be staffed and to house 2,000 inmates currently residing in these prisons. Department of Corrections anticipates savings of \$22 million, as SCI Benner Township is a new building and more cost effective to operate.

Board of Probation and Parole

Gov. Corbett proposes a \$10.7 million increase in the General Government Operations (GGO) appropriation for the Board of Probation and Parole for 2013/14. This increase continues the current

program, provides resources established under JRI, provides for workforce development, and provides for GPS monitoring equipment. As inmates leave prison more quickly under JRI, Probation and Parole will see increases in its population. The governor also appropriated \$2.1 million for 27 additional positions.

Judiciary

Gov. Corbett proposes level funding for the Judiciary in 2013/14 except for the elimination of \$1.1 million for Court Consolidation.

Pennsylvania Commission on Crime and Delinquency (PCCD)

Gov. Corbett's budget appropriates nearly \$3.7 million to PCCD for 2013/14, a \$363,000 increase over last year. However, PCCD will see a loss of \$28.8 million in federal funding in 2013/14 for a variety of programs.

Governor Corbett proposes using \$4 million of JRI funding for PCCD to support evidence-based delinquency, violence prevention and intervention programs.

Environment

Department of Environmental Protection

Gov. Corbett has cut the General Fund contribution to the Department of Environmental Protection by \$16.07 million, or 11.2 percent in his first three budgets. In 2013/14, he provides small increases for **Environmental Protection Operations** (a 2.5 percent increase) and the **Environmental Program Management** (a 6.5 percent increase); however, these appropriations are still \$1.6 million and \$2.3 million below their pre-Governor Corbett funding levels, respectively. In the past five years, state funding for environmental protection has been reduced by 41.8 percent, or \$91.61 million. This budget proposal also eliminates 40 positions within the department.

Gov. Corbett's 2013/14 budget eliminates the **Transfer to the Conservation District Fund** (-\$2.86 million). This transfer helped local conservation districts manage soil, water and natural resources. Additionally, this budget proposal locks in the elimination of the flood control grants and the sewage facilities grants.

Department of Conservation and Natural Resources

In his 2013/14 budget, Gov. Corbett flat funds the Department of Conservation and Natural Resources, locking in the \$28.15 million (-34.8 percent) cut he has imposed on the department since taking office. Thus, Gov. Corbett continues to force Pennsylvania's conservation agency to become increasingly reliant on money from resource extraction activities for its operating budget. For instance, 64.9 percent of Pennsylvania's state forest budget is made up of money from timber sales and oil and gas revenues in his 2013/14 budget. Not only is this funding source unsustainable, but the potentially destructive nature in which it is harvested is inconsistent with the agency's core mission.

Other Areas

Department of Agriculture

In his 2013/14 budget proposal, Gov. Corbett cuts the Department of Agriculture General Government Operations by nearly \$3.5 million. Once again, Gov. Corbett raids \$16.2 million from the Pennsylvania

Race Horse Development Fund by redirecting funds to the Veterinary Lab (\$5.3 million), the Animal Health Commission (\$5.4 million) and the Transfer to State Farm Products Show Fund (\$5.5 million).

The following **programs are eliminated** in his budget proposal:

- Agricultural Excellence
- Agricultural Research
- Agricultural Promotion, Education and Exports
- Hardwoods Research and Promotion
- Livestock Show
- Open Dairy Show
- Food Marketing and Research
- PA Preferred Program Trademark Licensing

Last year, Gov. Corbett targeted these programs for elimination but the General Assembly restored them with level funding compared to the previous year.

All other appropriations are recommended at the current-year funding levels. The General Fund appropriation is \$117.9 million or \$11.7 million less than last year.

Department of Community and Economic Development

In 2013/14, Gov. Corbett increases funding for the **World Trade PA** program from \$6.14 million to \$8.58 million, a 39.6 percent increase. Gov. Corbett also proposes increasing the **Marketing to Attract Businesses** program by 531 percent, from \$941,000 to \$5.94 million.

The **Pennsylvania First** program consolidated the Customized Job Training, Infrastructure Development, and Opportunity Grant Programs in 2011/12. It is slated to receive a 33.9 percent, or \$10 million increase under Gov. Corbett's 2013/14 budget proposal.

Gov. Corbett's budget creates the **Pennsylvania Business Development Authority** (PBDA). The PBDA would consolidate eight business financing programs in order to streamline the application process and leverage additional private dollars. The consolidated areas include: the Pennsylvania Industrial Development Authority, the Pennsylvania Minority Business Development Authority, the Machine and Equipment Loan Fund, the Small Business First Fund, First Industries, the Second Stage Loan program, the Community Economic Development program, and the Export Financing program.

In his 2013/14 budget, Gov. Corbett flat funds the **Keystone Communities** (Main Street and Elm Street) program at \$10.8 million. Over his three year tenure, the governor has cut this program by 60.5 percent, or \$16.515 million. Similarly, Gov. Corbett flat-funds the **Partnerships for Regional Economic Performance** (PREP) program, which equates to a 22.1 percent decrease when compared to before he took office.

In 2012/13, the General Assembly put a renewed focus on assisting municipalities struggling with financial insolvency – the **Act 47 program** was increased from \$925,000 to \$12.1 million. In his 2013/14 budget, Gov. Corbett reduces the funding for the Act 47 program by \$5 million, or 41.3 percent. The **Early Intervention for Distressed Municipalities Program** is flat funded.

Gov. Corbett proposes moving funding for the **Appalachian Regional Commission** (\$1.07 million) from the General Fund to the Motor License Fund. The 2013/14 budgeted amount reflects a \$70,000 increase from the 2012/13 available amount. Further, he proposes moving the **PennPORTS** program to the Department of Transportation.

In his 2013/14 budget, Gov. Corbett proposes eliminating funding for **Tourism – Accredited Zoos** (-\$450,000), **Infrastructure Technology Assistance Program** (-\$1.5 million), and **Powdered Metals** (-\$100,000).

In his first budget, Gov. Corbett all but eliminated the immensely popular and highly successful **Homeowners Emergency Mortgage Assistance Program** (HEMAP), reducing the program's \$10.48 million dollar budget to \$2 million. This decision was made after an unprecedented national housing crisis. Now, thanks to Pennsylvania's share of the national mortgage settlement, the HEMAP program has resumed its operations. As spelled out in Act 70 of 2012, HEMAP will receive \$22.2 million dollars for 2012/13 and \$10.8 million dollars in 2013/14 and the years to follow.

Department of General Services

Gov. Corbett's 2013/14 budget includes a 13.5 percent reduction (-135 positions) in the Department of General Service's authorized complement.

Emergency Management Agency

Gov. Corbett's budget includes a \$14.93 million supplemental appropriation for 2012/13 to provide additional state matching funds for federal assistance due to the **summer 2011 storms** and subsequent flooding. Related, his budget again includes funding (\$3 million) for **Hazard Mitigation** activities.

The East Coast saw the devastation to communities that a catastrophic event can leave in its wake with Superstorm Sandy. For over a decade, the commonwealth has partnered with the Red Cross to fund an **Extended Care Program** to help victims of a disaster resume their normal way of living as rapidly as possible. Gov. Corbett's proposed budget eliminates funding for the Red Cross Extended Care program.

Military and Veterans' Affairs

Gov. Corbett's budget includes funding for enhanced security at Fort Indiantown Gap (\$241,000) and information technology enhancements to streamline payroll processing (\$300,000). His budget also reflects additional federal funding available for use **at Veterans' Homes**, resulting in a related state funds decrease. Under his budget, Gov. Corbett again moves more general fund expenditures out of his bottom-line spend number to special funds, in this case the appropriation for Veterans' Assistance to the Veterans' Trust Fund.

Pensions

Policymakers should be concerned about the ramifications of a proposal that breaks promises to public servants about their retirement accounts in an attempt to bestow favors for corporate special interests; a proposal that tinkers with retirement plans for current employees sure to be mired in legal challenges; a budget balanced on theoretical pension savings that the courts may well overturn; a plan that delays the employers' responsibility to pay off pension debt, a burden shifted to the next generation; a plan to increase costs further by simultaneously running two styles of pension plans -- the current defined benefit plan and a defined contribution plan.

False Pension Premise

Gov. Corbett's budget presents a false choice. Specifically, his Executive Budget states that: "the commonwealth's growing pension obligations are crowding out funding for basic and higher education, public safety, health, human services, maintenance and repair of roads and bridges, environmental protection and other core governmental programs."

In an effort to continue his attack on core government services, the governor uses pension obligations as an excuse to skip payment on a bill that has come due and make the state's vulnerable populations shoulder the burden.

Gov. Corbett's pension reform plan proposes a defined contribution plan for future employees. The pension reform plan includes:

- No change to benefits for retirees.
- No change to benefits already accrued by current employees.
- Beginning Jan. 1, 2015, for SERS and July 1, 2015, for PSERS, new employees will be enrolled in a 401(a) defined contribution-style plan. Enrollment will be automatic and most SERS employees will be required to contribute at least 6.25 percent of their salary to their retirement, while public school employees will need to contribute at least 7.5 percent.
- Future pension benefits for current employees will be reduced through a lower multiplier (decreased from 2.5 percent to 2.0 percent).
- Current employees will be able to contribute a higher amount in order to retain the 2.5 multiplier.
- Compensation reforms including anti-spiking provisions to 110 percent of the average salary of the prior 4 years when determining an employee's final average earnings. Further, determining an employee's final salary by averaging the employee's last five years of compensation.
- Capping pensions at the Social Security wage base (\$113,700).
- Contribution refunds to be provided on an actuarial equivalent basis.
- Lump sum withdrawals will be permitted; however, the annuity will be commensurately reduced.
- Pension collars will be applied. The following table exhibits the schedule of moderated stepped-increases included in the proposal:

Fiscal Year	Rate Collar		
	Current Law - PSERS	Current Law - SERS	Proposal
2013/14	4.5%	4.5%	2.25%
2014/15	4.5%	4.5%	2.75%
2015/16	4.5%	4.5%	3.25%
2016/17	Collar Lifted	4.5%	3.75%
2017/18		Collar Lifted	4.25%
2018/19	4.50%		

Public Employee Retirement Commission

Gov. Corbett flat funds the Public Employee Retirement Commission (PERC) appropriation in 2013/14. PERC monitors public retirement plans, assures their actuarial viability, and reviews all proposed legislation applicable to public employee pension systems. PERC has a special role providing credible nonpartisan expertise to help the General Assembly understand and make informed decisions about pension reform legislation. Given the significant policy changes proposed by the governor, flat funding does not provide sufficient resources required for the commission.

Complement

Policymakers should be concerned about the ramifications of a loss of additional state public service jobs—900 authorized positions—on the heels of a 17,000 loss in education jobs due to budget cuts during Gov. Corbett’s first two years and a 1,811 loss in state public service jobs. Remember, Gov. Corbett’s number one priority when he took office was job creation.

Gov. Corbett plans to cut the number of employees providing state services by 905 full-time equivalent authorized positions in 2013/14. The majority of those cuts come from the Department of Public Welfare, Department of Revenue and Department of General Services. The decrease in complement at the Department of Revenue is mostly attributable to the elimination of 177 positions associated with the proposed private management agreement for lottery operations. The changes in complement also show the assumption that the Tax Equalization Board will be transferred to the Department of Community and Economic Development, with six of the 13 positions being eliminated.

Since Gov. Corbett took office the number of filled positions has decreased by more than 2,000 positions (or 2.6 percent), from 76,663 in January 2011 to 74,634 as of January 2013. It is not known what portion of the decline is attributable to attrition versus layoffs or terminations.

In addition to the reductions in the commonwealth’s complement, Gov. Corbett proposes to transition management employees to a 40-hour work week, as opposed to the current 37.5-hour work week. While the governor is counting on an increase in productivity, many management employees currently work more than the required minimum with no overtime pay, no bonuses and no compensatory time.

Tax and Revenue Changes

Policymakers should be concerned about the ramifications of a refusal to consider reasonable and dependable revenue streams to address damage to core public services; revenue from sources like a real severance tax on natural gas, a smokeless tobacco tax and closing the Delaware loophole.

Gov. Corbett’s budget proposal continues favors to corporations. This budget proposal does not address a reasonable severance tax on natural gas extraction, does not close any corporate tax loopholes and leaves Pennsylvania as the only state that does not tax smokeless tobacco products. Instead of creating tax fairness, Gov. Corbett proposes to lower the corporate net income tax rate without closing loopholes and allow corporations to take larger deductions. Although the net effect of proposed tax changes is not a significant revenue loss in the budget year of 2013/14, the benefits to corporations in future years will be hundreds of millions of dollars per year. There are no proposed tax benefits for working families who will begin to shoulder a disproportionately growing portion of the state budget through personal income tax and sales tax.

Gov. Corbett’s budget proposal includes **\$46.8 million in tax and revenue modifications** to the General Fund. Most of this revenue, \$44.5 million, comes from transfers to the General Fund, while the remaining \$2.3 million comes from the net effect of tax changes. The tax increases and transfers are as follows:

Tax Revenue

- **Corporate Net Income Tax**, increase in net operating loss (NOL) cap—**decrease of about \$11.4 million** is proposed by increasing the NOL cap from \$3 million/20 percent of taxable income to \$4 million/25 percent of taxable income in 2014 and to \$5 million/30 percent of taxable income in 2015. The corporate net income tax rate is proposed to be phased down to 6.99 percent by tax year 2025, beginning in 2015.

- **Corporate Net Income Tax**, sourcing of sales –**increase of \$7 million** is proposed by changing the sourcing of services to the location of the customer.
- **Corporate Loans Tax Repeal** –**decrease of \$700,000** is estimated as a result of repealing the corporate loans tax effective in tax years 2014 and after.
- **Realty Transfer Tax** –**increase of \$4.3 million** is proposed by changing the circumstances in which the transfer of interests in a real estate company is subject to tax.
- **Personal Income Tax** –**increase of \$2.6 million** is proposed by making changes to filing requirements and enforcement initiatives applying to certain pass-through businesses, including estates and trusts.
- **Tax Credit Repeals** – **increase of \$500,000** is proposed through the repeal of certain tax credits.

Transfers (Non-Tax Revenue)

- **Transfer from the Motor License Fund of \$29.5 million** is proposed from the redirection of certain fines to the General Fund.
- **Transfer from the Race Horse Development Fund of \$15 million** to the General Fund is proposed.

Although the budget proposal for 2013/14 does not show revenue losses associated with the phase down of the corporate net income tax rate, there will be significant revenue loss in future years associated with this proposed change. Detailed estimates are not available at this time; however, general estimates suggest that this tax cut could cost more than **\$775 million in revenue losses per year** when fully phased down. Note: This proposal does not mention a switch to mandatory combined reporting to close current loopholes, such as the Delaware loophole.

Gov. Corbett proposes the continuation of the capital stock and franchise tax phase out by allowing the rate set in current statute to reduce to 0.89 mills for tax years beginning in 2013 and being completely phased out in 2014. The revenue loss in the proposed 2013/14 budget is approximately \$361.6 million. The revenue loss associated with this phase out as compared to the rate of 2.89 mills under Gov. Rendell is approximately \$668.6 million in fiscal year 2013/14. Since Gov. Corbett took office, the phase out of the capital stock and franchise tax has cost the commonwealth more than **\$1 billion in lost revenue**.

Property Tax Relief

There are no changes proposed by Gov. Corbett with respect to property tax relief disbursements to homeowners and senior citizens. The Property Tax Relief Fund shows no increase to general property tax relief and a minor decrease of \$1.1 million for property tax relief and property tax/rent rebate for seniors. The level of property tax relief is proposed to be maintained at a constant level while transfers from the State Gaming Fund, resulting from higher casino revenue, are expected to grow by approximately \$18.9 million, or 2.3 percent, in the 2013/14 fiscal year. The official certification of relief and benefits will be announced by the Budget Secretary in April.