

# **GOVERNOR'S BUDGET 2010-11**

## **OVERVIEW**

**JAKE CORMAN, CHAIRMAN  
SENATE APPROPRIATIONS COMMITTEE  
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## **EXPENDITURES**

The Governor's Budget proposes a General Fund total spend of **\$29.03 billion** for FY 2010-11.

This amount represents an increase of **\$1.155 billion or 4.14%** and includes State funds of \$26.273 billion, \$1.835 billion in ARRA Enhanced FMAP and \$921.4 million in ARRA Fiscal Stabilization Funds.

The Governor's proposed budget assumes:

- Congress will extend the ARRA Enhanced FMAP until September 30, 2011, providing an additional \$848 million in FY 2010-2011 and \$498 million in FY 2011-2012;
- Federal legislation will be enacted that will allow the Commonwealth to realize additional revenues by collecting federal rebates on drug expenditures of Medicaid managed care organizations, resulting in state fund savings of \$102.5 million; and
- Pennsylvania's Blue Cross/Blue Shield plans will agree to the continuation of the Community Health Reinvestment Agreement resulting in \$183.6 million of CHRA funds to continue the Adult Basic health insurance program in FY 2010-2011.

**Together, these assumptions total over \$1.134 billion for FY 2010-11 that are dependent on approval by entities outside the state government. The Governor stated that if any one of the above assumption fails to come to fruition, his budget would not be in balance.**

**The Governor proposes to address the expiration of the Federal fiscal stimulus program by enacting new taxes totaling approximately \$2.3 billion over two fiscal years. Approximately \$874 million would be collected in FY 2010-11 and would be deposited in a newly created Stimulus Transition Reserve Fund. Presumably, all revenues generated would be used to offset non-recurring Federal fiscal stimulus funds beginning in FY 2011-12.**

## **REVENUE AND TAXES**

### **Revenues**

- The Governor's budget assumes 3.2% growth in base General Fund revenues for FY 2010-11. However, General Fund revenues are set to decline from \$28.3 billion in FY 2009-10 to \$27.5 billion in FY 2010-11. The decrease mostly results from the lack of one-time revenue sources such as transfers from the Rainy Day Fund and HCPRA that occurred in FY 2009-10.

### **Proposed Tax and Revenue Modifications**

#### *Non-Tax Revenue:*

Transfer from Oil and Gas Lease Fund – A \$180 million transfer of the proceeds of the Marcellus Shale lease payments to the General Fund is proposed. The amount includes \$68 million in unanticipated revenues from the most recent DCNR lease offering.

#### *Tax Revenue:*

Stimulus Transition Reserve Fund – A new state fund is proposed to be created to receive certain revenues totaling \$874 million that will assist the Commonwealth in replacing revenues currently being received in the form of federal fiscal relief as provided through the American Recovery and Reinvestment Act (ARRA). The additional revenue proposed below will not be appropriated in fiscal year 2010-11 but rather will be set aside as a down payment in anticipation of the end of ARRA funding in fiscal year 2011-12.

- Sales and Use Tax – Proposes to reduce the sales tax rate from 6% to 4%, while also expanding the SUT base by eliminating seventy-four specific tax exemptions. The current exemptions for food, clothing and pharmaceuticals are maintained. The plan also preserves the original exemptions for manufacturers that cover processing, agriculture, and machinery and equipment. Expanding the sales tax base and reducing the rate is estimated to generate an additional \$531.5 million in FY 2010-11. The changes will be effective September 1, 2010.
- Sales and Use Tax – The one percent discount for the timely remittance of sales tax collected by licensed vendors is proposed to be eliminated, which would generate an estimated \$73.6 million in FY 2010-11.
- Severance Tax – A new tax on the severance of natural gas within the commonwealth is proposed to generate an estimated \$160.7 million in FY 2010-11. The tax is effective July 1, 2010.
- Corporate Net Income Tax – Proposes a comprehensive reform package similar to that proposed by the Pennsylvania Business Tax Reform Commission in 2004. The changes are expected to increase the CNI tax by \$66.6 million in FY 2010-11, and they will become effective for tax years beginning on or after January 1, 2011.
  - Reduces the CNI tax rate from 9.99% to 8.99%.
  - Implements a mandatory unitary combined reporting system.
  - Eliminates the annual cap on net operating losses – but only for losses generated under the new combined reporting system.
  - Implements a single (100%) sales factor formula for CNI tax apportionment.
- Other Tobacco Products Tax – A new tax on other tobacco products, including smokeless tobacco, large cigars, and loose tobacco is proposed and would generate \$41.6 million. The proposed tax would be effective July 1, 2010.

## BASIC EDUCATION

- The Governor’s Budget provides \$5.88 billion for the **Basic Education Subsidy**, a \$354.8 million, or 6.4% increase.
  - This appropriation includes \$5.226 billion in State Funds and \$654.7 million in Federal ARRA State Fiscal Stabilization Funds.
- Maintains funding for the Reimbursement to School Districts for **Charter School Expenses** at \$226.9 million.
- Provides \$55.3 million for the **Education Assistance Program** (Tutoring), a \$3.8 million, or 6.4% reduction.
- Provides \$38.6 million for **Head Start Supplemental Assistance**, a \$784,000, or 2% reduction.
- Includes \$85.9 million for **Pre-K Counts**, a \$475,000, or 0.5% reduction.
- Provides \$1.026 billion for **Special Education Funding**, the same amount as provided in the current year.
- Includes \$58.8 million for the **Public Library Subsidy**, a \$1.2 million, or 2% reduction.

## HIGHER EDUCATION

- The proposed budget maintains funding at FY 2009-10 levels for the **State System of Higher Education, Community Colleges, the State-related universities and Thaddeus Stevens**

**College of Technology.** The amounts below include Federal ARRA State Fiscal Stabilization Funds.

- State System of Higher Education -- \$503.3 million
  - Community Colleges -- \$282.1 million
  - Penn State -- \$333.8 million
  - University of Pittsburgh -- \$167.9 million
  - Temple University -- \$172.7 million
  - Lincoln University -- \$13.7 million
  - Thaddeus Stevens College of Technology -- \$10.8 million
- Maintains funding for **PHEAA Grants to Students** at \$403.6 million and **Institutional Assistance Grants** at \$30.2 million.
  - Maintains funding for the **University of Pennsylvania's School of Veterinary Medicine** at \$30 million and includes \$500,000 for the University's Clinical Center for Infectious Disease.

### **PENSION- SERS AND PSERS**

Under current law, in FY 2012-13, the Commonwealth and school districts will face a sharp increase in employer contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS). However, the Governor's budget proposal to mitigate the rate spike has two components:

- Re-amortize the pensions' liabilities over 30 years.
- Limit annual contribution rate increases to 1% of payroll in the FY 2010-11 and 3% of payroll thereafter for approximately 10 years or less if investment earning exceed the assumed rate of return.

### **HEALTH AND HUMAN SERVICES**

#### **Cost Containment**

The proposed budget includes a number of cost containment initiatives saving \$137.1 million in state funds in FY 2010-2011. These efforts include:

- Reducing Fraud and Abuse and Expanded Third-Party Liability;
- Reducing Supplemental Payments to Hospitals;
- Increasing Pharmacy Efficiencies; and
- Increasing Pharmaceutical Rebates

#### **Restructuring the Long Term Living System**

- The budget again proposes a reorganization of the long-term living system by integrating several programs managed by the departments of Aging and Public Welfare in the newly created Department of Aging and Long Term Living.
- Establishing this single entity for the administration of long-term living services would consolidate policy, quality management and administration into one department for persons with disabilities and older Pennsylvanians. Legislation is required to establish the new department.

### **CORRECTIONS**

The Governor proposes \$1.9 billion to operate the Department of Corrections in FY 2010-11. This is an increase of \$136.8 million (7.7%). This funding includes the following:

- \$9.4 million for contracted medical services and pharmacy costs;
- \$10.4 million to operate SCI Waynesburg for the entire fiscal year;
- \$13 million to increase capacity at nine corrections facilities by 2,000 beds; and
- \$32 million to contract 2,100 beds in correctional institutions in Michigan and Virginia for the entire fiscal year.

#### **NON-PREFERRED APPROPRIATIONS**

- The Governor's Budget proposal eliminates funding for the health-related, museum and state-aided educational institution non-preferred appropriations. Funding is provided for the four state-related universities and the University of Pennsylvania's School of Veterinary Medicine.