

2005-06  
Proposed State and Federal  
Budget Overview



Pennsylvania  
Partnerships for Children

# State Budget, 2005-06

## *Revenue Picture for this year:*

### ■ Factors:

- Full fiscal year of PIT rate increase
- Improving economy
- Expected year end surplus of \$201m  
Receipts above estimates: +\$291m
- Spending reductions: +\$129m
- Supplemental appropriations: -\$154m
- Rainy Day Fund: -\$67m

# State Budget, 2005-06

## *Revenue Picture for 2005-06:*

- Beginning surplus / one time losses
- 2.4% growth rate = \$550m
  - Minimal corporation growth, moderate sales/PIT growth
- Continue phase-out of the CSFT
- Restructure corporation taxes (Jan.1, 2007)
  - Lower CNI rate/expand other incentives
  - Widen Base – combined reporting
  - Almost revenue neutral - \$12m cost

# State Budget, 2005-06

## *General Fund Expenditures:*

- Increase by \$815m
  - 3.5% increase from current year
  - Net after \$404m in expenditure reductions
- Not really a \$815m increase...
  - \$378m - to replace federal fiscal relief
- Real Growth = \$437m or 1.9%

# State Budget, 2005-06

## *General Fund Expenditures:*

- Where did the \$815m go?
  - DPW - \$612m or 75% of the increase
    - DPW budget increases by 7.8%
      - Vast majority – MA growth, growth in entitlements, small increases in some other programs
    - Medical Assistance - \$285m
    - Child Welfare - \$251m - replace TANF funds
  - Remainder to Education and Debt Service

# State Budget, 2005-06

*How was balancing achieved?*

- Small growth in revenue
- Very small increases – priority areas, entitlements, and few others
- Spending reductions/modifications
  - DPW Medical Assistance Program
  - Other departments reduced up to 5%

# State Budget, 2005-06

## *TANF:*

- Reserves have been depleted
- Eliminated funding for a number of non-DPW funded programs
- Reduce TANF support for child welfare services by \$227m – picked up by the general fund

# State Budget, 2005-06

## *Intergovernmental Transfer:*

- IGT reserves gone after 2005-06
- IGT phase out continues at a rate of \$200m per year
- More serious problems exist in the 2006-07 budget and beyond

# State Budget, 2005-06

## *Other areas for concern:*

- MA Assessments are yielding between \$700m - \$900m per year
  - Approved for 2004-05 and 2005-06
  - Feds are targeting for elimination
    - Serious 2006-07 challenge
- Congressional action on the federal budget looms in front of us

# State Budget, 2005-06

## *What does this mean?*

- Administration is focused on two years
  - 2006-07, an election year looks worse
- Likelihood of increases to offset cuts or create growth in programs is unlikely
  - To grow you will need to detail the corresponding cut
  - Legislature and Administration have pledged no tax hikes

# State Budget, 2005-06

## *Medicaid:*

- No cuts to Medicaid eligibility
- Increased revenue: consumers as the source, through cost sharing (premiums and co-payments)
- Cut services through caps on an array of services for adults
- Raise payments to some providers, cut payments to others

# State Budget, 2005-06

## *Medicaid:*

- *Who feels the impact?*
  - All Adults, with childless adults being even harder hit
  - Kids with disabilities in non-poor families
  - Providers

# State Budget, 2005-06

## *Medicaid:*

- Premium payments for non-poor families with a child with a severe disability – loophole kids
  - Sliding scale premium
  - Starting with families with income of \$ 40,000 per year

# State Budget, 2005-06

## *Medicaid:*

- Limits on all of the following services:
  - Prescriptions
  - Inpatient hospital - physical health
  - Inpatient - medical rehab admissions
  - Outpatient Visits
  - Durable Medical Equipment (DME)
  - Behavioral Health: Inpatient and outpatient hospitalization
  - Behavioral Health: Outpatient visits
  - Ambulance

# State Budget, 2005-06

## *Medicaid:*

- Co-payments for adults:
  - Prescription drugs and MA transportation
- Exceptions to service limits:
  - Pregnant women
  - Others – process yet to be detailed
- Rates for providers:
  - 2% increase for HMO's, nursing homes and hospitals in non-Health Choices areas

# State Budget, 2005-06

## *Child Welfare:*

- TANF reduced from \$295m to \$68m
- General Fund appropriation increased by \$206m from \$633m to \$839m
- Administration proposes a new line item “TANF Transition” - \$45m
  - No local match required as in other child welfare funds
  - Allocation of the \$45m is unclear
  - Maybe to offset match requirements from increased general fund appropriation

# State Budget, 2005-06

## *County Human Services:*

- MR waiting list reduction (42%)
- 2% cost of living adjustment for direct care workers
  - Mental health, mental retardation, drug and alcohol and Office of Social Program waiver providers

# State Budget, 2005-06

## *Early Care and Education:*

- Governor has made ECE a top priority
  - Investments have been made in
    - Child Care
    - Head Start
    - Education Accountability Block Grants
- In this tough budget year...
  - The commitment continues

# State Budget, 2005-06

## *Early Care and Education:*

### ■ Child Care

- Nearly \$564.7m
  - \$157.21m State
  - \$407.5m Federal (CCDBG and TANF)
- Increase of nearly \$33m
  - \$24+m state

# State Budget, 2005-06

*What does new child care funding support?*

- Expanded access for subsidy
  - System will increase its daily capacity by 1,000 children
    - 110,000 total
- Continued support for Keystone Stars and TEACH
  - 45% of child care centers now participate in Stars

# State Budget, 2005-06

## *Basic Education:*

- Increases in major line items
  - Basic Education + 2.5%
  - Special Education + 2.5%
- Funding for programs geared to improve student achievement
  - Tutoring increased by \$38m

# State Budget, 2005-06

*Despite these increases:*

- The state share of K-12 funding will decline slightly
- The distribution of state funds will not improve the current inequitable system
- Act 72 budget cycle changes and referenda looming for many districts
- Need for a rational, equitable, adequate school funding system remains unaddressed

# State Budget, 2005-06

- Education Accountability Block Grants
  - Level funded at \$200m
  - \$2 of every \$3 being used for ECE
  - 54% of students now have full-day kindergarten
  - Nearly 3,000 children receiving pre-K

# State Budget, 2005-06

- Head Start Supplemental Assistance
  - First time appropriation of \$15m in 2004-05
    - Serves 2,995 children
  - Proposed funding increase of \$15m
    - Will serve an additional 2,500 children
    - New RFA will be on PDE website
    - Partnerships with school districts and child care are a core component

# State Budget, 2005-06

## *Job Ready PA*

- \$101m to boost economic development & expand opportunity
- Some highlights:
  - \$22.8m for community colleges (10% increase)
  - \$10m PHEAA grant program to help working adults obtain credentials in high priority occupations
  - Enhanced usage of Area Vocational Technical Schools – credentials to meet industry standards such as the Child Development Associate program

# Federal Budget, 2005-06

## *An overview:*

- Concern over large federal budget deficit
- Interest in extending tax cuts and possibly enacting further tax cuts
  - No Administration/Congressional leadership support for raising revenue
- Administration and Congressional interest in “restraining spending”

# Federal Budget, 2005-06

## *Federal Budget Consideration Timeline:*

- President's Budget: Released Monday, Feb. 7<sup>th</sup>
- Congress now holding hearings on President's budget request
- *Early March:* House and Senate will develop their own "budget blueprint" called a budget resolution
  - This will set targets for overall discretionary funding and cuts in entitlements
- *April:* Budget Resolution completed
- *May-July:* "Reconciliation bill" to achieve cuts required in budget resolution
- *Spring/Summer/Fall:* Appropriations process

# Federal Budget, 2005-06

*What did the President propose?*

- No deficit reduction
- Cuts in Medicaid and Food Stamps
- Cuts in domestic discretionary programs like education
- Cuts in grants to states
- Tax cuts made permanent

# Federal Budget, 2005-06

## *What might Congress do?*

- *Seek more deficit reduction*
- *Seek more cuts in entitlement programs like Medicaid, Food Stamps, EITC, SSI, etc.*
- *Not accept certain cuts/fees Administration has proposed, such as:*
  - *Cuts in farm subsidies, prescription drug prices in Medicaid, cuts in certain discretionary programs such as AMTRAK and veterans' health care*
- *Consider caps on entitlement programs and discretionary programs that lead to large cuts in the future*

# State and Federal Budgets

## *Next steps?*

- *Action steps and regular updates/alerts on our website and through PA-CAN/Capitol Wizard*
- *Communicate with your state AND federal lawmakers*
- *Connections to other coalitions*

# State and Federal Budgets

*Special thanks to the following for their help with this presentation:*

- County Commissioners Assn of PA: [www.pacounties.org](http://www.pacounties.org)
- Hospital & Health System Assn of PA: [www.haponline.org](http://www.haponline.org)
- Keystone Research Center: [www.keystoneresearch.org](http://www.keystoneresearch.org)
- PathwaysPA: [www.pathways.pa](http://www.pathways.pa)
- Pennsylvania Economy League: [www.issuespa.net](http://www.issuespa.net)
- Pennsylvania Health Law Project: [www.phlp.org](http://www.phlp.org)
- PA School Boards Assn: [www.psba.org](http://www.psba.org)
- Center on Budget and Policy Priorities: [www.cbpp.org](http://www.cbpp.org)

# State and Federal Budgets

*For More Information:*

[www.papartnerships.org](http://www.papartnerships.org)