

Pennsylvania 2018/19 BUDGET BRIEFING

Report on Key Issues

House Appropriations Committee (D)

JOE MARKOSEK, DEMOCRATIC CHAIRMAN

February 6, 2018



Gov. Wolf's 2018/19 Executive Budget Proposal

Updated 2/6/2018 11:36 AM

This document is an overview of Gov. Wolf's 2018/19 Executive Budget proposal, delivered Feb. 6 to a joint session of the General Assembly. The Democratic House Appropriations Committee will continue to review his request and will deliver briefings on specific issues and program areas as more information is shared.

Visit the Department of Education's website for spreadsheets detailing, by school district, the estimated basic and special education funding.

Introduction

The 2018/19 budget plan Gov. Tom Wolf has presented to the General Assembly is a responsible, well-laid out plan that provides a reasonable foundation for a bipartisan dialogue, and can conclude in a timely fashion.

The cornerstone of the governor's first term has been a commitment to education and, as anticipated, his fourth budget proposal continues this pledge. He continues to keep his promise to restore school district funding after sharp cuts during the prior administration. The Governor also focuses on investing in early education and providing a meaningful increase in career and technical education for the first time in about two decades.

Layered on this commitment to our school children and young adults, the governor is presenting initiatives for workforce development, job creation, a sustained call for an increase in the minimum wage, and (directly related to jobs initiatives) a call for increased access to quality child care.

Other themes in the governor's budget proposal include:

- An ongoing pledge to effectively address the opioid crisis,
- Maintaining the rollout of Pennsylvania's mandatory managed care program for dual eligible seniors, called Community HealthChoices,
- An increased commitment to care for those with intellectual disabilities,
- Support for more staff to adequately protect Pennsylvania's air, land and water,
- A municipal services fee for state police coverage of municipalities with no local police force, a proposal initially recommended in the 2017/18 budget that looked to address a decline in support from the Motor License Fund,
- A Lottery Fund brought into balance that insures promises to our seniors are kept,
- Increased funding for roads and bridges within the Motor License Fund, and
- The full, actuarially-calculated pension payment. Of this amount, \$3.3 billion, or nearly 80 percent, will go to reducing the unfunded pension liability caused by the systematic underfunding of the systems for 16 years.

The governor’s 2018/19 budget proposal represents a \$990 million (three percent) increase in General Fund expenditures compared with the 2017/18 available year (adjusting for supplemental appropriations). A little over two-thirds of this increase pays to simply keep the lights on - the amounts required to maintain current programs and services, a cost-to-carry budget.

Initiatives in the governor’s request would largely be paid for with a reasonable severance tax on natural gas, but **no broad-based tax increases**. According to the administration, General Fund initiatives - like the continued commitment to restore education funding - constitute a little less than a third (about \$300 million) of the overall increase. Additional Pre-K-12 education investments account for \$210 million of those new initiatives.

Looking to the future, the governor’s budget presents a long-term plan to improve Pennsylvania’s business climate and guard against the impact of future economic downturns by beginning to replenish the Budget Stabilization Reserve Fund, more commonly known as the Rainy Day Fund.

The plan seeks to address inequities in the Corporate Net Income Tax by finally closing the Delaware loophole. This would allow a rate reduction for C corporations over five calendar years from 9.99 to 7.99 percent. Closing the loophole would ensure that C corporations pay their fair share and the rate reduction is long overdue for those who have been paying the higher rate. Coupled with the recent elimination of the Capital Stock and Franchise Tax, this would be a huge step in the right direction for Pennsylvania businesses.

Also over the next five years, the governor is asking the General Assembly to begin rebuilding the Rainy Day Fund to an amount approaching \$300 million. This reserve account was started under Republican Gov. Richard Thornburgh to mitigate the impact of economic downturns on our budget, but is currently empty after balances were used during the last two recessions under Govs. Schweiker and Rendell. Without a healthy Rainy Day Fund, the commonwealth is critically unprepared for the next recession. To reach the governor’s goal, the General Assembly must stop using surplus money to balance General Fund budgets that otherwise would go to the Rainy Day Fund.

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Overview

Combined Operating Budget

Although focus is placed on the General Fund, the combined operating budget provides the most accurate representation of spending trends in Pennsylvania. Measuring all funds (federal, state, special and other), the governor’s proposal represents a total commonwealth operating budget that increases by \$3.2 billion to \$84.7 billion, including \$55.1 billion in non-federal funds. The largest portion of this increase is due to augmentations in the proposed Department of Health and Human Services.

General Fund

The governor’s proposed 2018/19 General Fund budget of \$33.0 billion increases non-federal expenditures by \$989.8 million, or 3.1 percent (after adjusting for proposed state supplemental appropriations). The 2018/19 proposal is paid for mostly with natural growth in General Fund tax revenues estimated to increase by \$1.2 billion, or 3.7 percent. The governor is proposing an additional \$248.7 million from a severance tax.

Again this year, the centerpiece of the governor’s proposal remains an increased commitment to pre-K-12 education. The roughly \$990 million budget-year increase includes:

- \$341 million in the Department of Education, excluding an increase of \$263 million in the employer contribution for the school employee pension system, PSERS,
- \$221.2 million in the Department of Health and Human Services, a new department that would consolidate two existing agencies into one,
- \$104.3 million in the Department of Criminal Justice, mostly for state correctional institutions and medical care,
- \$16.0 million in the Department of Conservation and Natural Resources, mostly for state park and state forest operations,
- \$15 million for the Pennsylvania State System of Higher Education,
- \$11.6 million for Military and Veterans Affairs, including for veterans’ homes, and
- the Judiciary and the General Assembly would be flat funded.

Gov. Wolf’s 2018/19 General Fund budget is supported by an estimated 3.7 percent increase in revenue (\$1.2 billion), assuming current law, and the previously noted revenue from a new severance tax on natural gas.

The use of one-time funds has been significantly reduced in the proposed budget (page 6). While the 2017/18 spending plan relied on about \$2.3 billion in one-time funds, the 2018/19 proposed budget looks to incorporate \$526.3 million.

2017/18 Budget Updates

The governor’s 2018/19 executive budget also assumes updates to the current 2017/18 General Fund revenue and spending assumptions based on events that have transpired since the budget was completed in late October 2017.

- The budget assumes revenue will exceed initial expectations by \$48 million. Recently revised estimates from the Independent Fiscal Office are similar.
- The governor assumes state supplemental appropriations for 2017/18 will result in net savings of \$13.6 million. These spending reductions largely reflect adjustments to correctional institutions, while the proposal assumes a net increase in spending for Health and Human Services. More minor adjustments are expected for a variety of other agencies.
- Several court cases have been filed since the 2017/18 budget was finalized, which could affect expected revenues and expenditures, as detailed later in this analysis.

Proposed Tax and Revenue Modifications

Gov. Wolf’s 2018/19 budget proposes a severance tax based on the volume of natural gas extracted in the commonwealth. The proposal would be sensitive to prices, with the tax rate dependent on the market price of natural gas. The table below shows the governor’s severance tax structure:

| Natural Gas Price Range | Tax Per Thousand Cubic Feet |
|-------------------------|-----------------------------|
| \$0.00 - \$3.00 | \$0.04 |
| \$3.01 - \$4.99 | \$0.05 |
| \$5.00 - \$5.99 | \$0.06 |
| \$6.00 or more | \$0.07 |

The governor would preserve the current natural gas impact fee, which has provided critical assistance to local communities where gas is extracted. The administration anticipates the tax to yield:

- \$248.7 million in 2018/19,
- \$264.1 million in 2019/20, and
- \$355.3 million in 2020/21.

To create a more competitive business climate, the governor proposes reforms to the Corporate Net Income Tax, including mandatory combined reporting, effective Jan. 1, 2019, and phased-in rate reductions. This is expected to generate additional revenue beginning in 2019/20. The rate would be reduced from 9.99 percent to:

- 9.49 percent, effective Jan. 1, 2020,
- 8.99 percent, effective Jan. 1, 2021,
- 8.49 percent, effective Jan. 1, 2022, and
- 7.99 percent, effective Jan. 1, 2023.

Though not included in the proposed tax modifications, Act 43 of 2017 changed the net operating loss carry forward to 40 percent of taxable income, effective Jan. 1, 2019. This was enacted as part of the 2017 tax package (Act 43), and the percentage cap was increased in reaction to a court case (Nextel Communications v. Commonwealth), which ruled the former flat rate portion of the cap unconstitutional. The revenue increase associated with this is assumed in base revenues.

Rainy Day Fund

The legislature suspended **Rainy Day Fund** transfers each year since 2008. The governor's 2018/19 proposal would change course and transfer \$14 million to the Rainy Day Fund with the close of this fiscal year. Going forward, the budget projects deposits totaling roughly \$285 million by 2023. Generally, public policy experts recommend that states put five to 15 percent of their General Fund spending into some type of savings account. For Pennsylvania, this would mean a Rainy Day fund balance of between \$1.7 billion and \$5 billion, assuming the current budget proposal. The balance today is negligible.

Court Cases

The following cases could impact expected revenues or expenditures:

- **Joint Underwriters** – In November 2017, the U.S. District Court for the Middle District of Pennsylvania issued a temporary injunction barring the state from dissolving the Pennsylvania Professional Liability Joint Underwriting Association if it does not comply with Act 44 of 2017, requiring \$200 million of its surplus transferred to the state by Dec. 1. The Chief Judge has not scheduled a trial date.
- **Constitutional Budget** – In *Brouillette v. Wolf*, the petitioners want Commonwealth Court to compel the governor, General Assembly, state treasurer and auditor general to uphold several balanced budget requirements under the state Constitution. A trial date has not yet been scheduled.
- **Fireworks** – In January 2018, a group of fireworks retailers filed a constitutional challenge in Commonwealth Court to Act 43 of 2017, which regulates fireworks sales in Pennsylvania. If the retailers are successful, it could invalidate all or part of Act 43, which included a number of tax changes and the proposed securitization of Tobacco Master Settlement Agreement revenues. This is in its preliminary stage.
- **School Funding** – In September 2017, the PA Supreme Court reinstated a lawsuit challenging the state's school-funding system. The lawsuit was originally brought by the William Penn School District in Delaware County, but its outcome could affect school districts statewide. A trial court will hear arguments contending that Pennsylvania's school-funding system violates the state constitution's guarantee of a "thorough and efficient system" of education and its equal-protection provision.
- **Gaming Expansion** – After the state expanded gaming under Act 42 of 2017, several casinos filed state and federal lawsuits alleging the law is unconstitutional, and requested the courts stop Pennsylvania

from awarding mini-casino licenses. This delay could have a negative impact on the anticipated revenue to be generated for state and local communities.

Business Taxes – In October 2017, the PA Supreme Court ruled that the flat cap portion of the net operating loss carryover on the corporate net income tax was unconstitutional (Nextel Communications v. Commonwealth). Lawmakers amended the Tax Reform Code later that month to reflect this decision and to increase the percentage carryover cap to 35 percent for 2018 and 40 percent for 2019. The revenue impact of this is assumed in base revenues.

| General Fund Budget Balancing Measures to Monitor | | |
|---|-------------------|-----------------|
| \$ Amounts in Millions | | |
| EXPENDITURES | 2017/18 | 2018/19 |
| General Fund Expenditures Shifted Offline or to Special Funds | \$8.8 | \$3.9 |
| Marginal increase in school construction (PlanCon) bond debt service shifted offline | \$8.8 | \$3.9 |
| Other Questionable/Unsustainable Budget Savings | \$284.4 | \$437.8 |
| 2017/18 Medical Assistance expenditures rolled back to 2016/17 fiscal year | \$173.2 | \$0.0 |
| MA expenditures funded with one-time revenue received March 2017 from Managed Care Organization Gross Receipts Tax | \$0.0 | \$351.7 |
| Authority Rentals & Sinking Fund Requirements (PlanCon) reduced reliance on bond proceeds | \$111.2 | \$86.1 |
| Subtotal Expenditures | \$293.2 | \$441.7 |
| REVENUES | | |
| Transfers to General Fund | \$300.0 | \$41.8 |
| Transfers to General Fund - The 2017/18 Fiscal Code requires the governor to transfer \$300 million from special funds and restricted accounts to the General Fund. This will most likely consist of \$200 million from a Farm Show Lease, \$45 million in debt refinancing, \$40 million from various settlement agreements and \$12 million from leave payout accounts. For 2018/19 there are miscellaneous revenues from repayment of loans and medical marijuana. | \$300.0 | \$41.8 |
| Other Questionable/Unsustainable General Fund Revenue Raisers | \$1,766.2 | \$42.8 |
| Table Game License Fee - Fee to be paid by June 30, 2018 for any slot machine license issued in 2017/18. This provision changes the timeline for payment of fees, but does not change the amount due. A previous year's Fiscal Code required all slot machine license fees to be deposited into the General Fund for any license fee received by the Board after June 30, 2014. | \$24.8 | \$0.0 |
| Slot Machine License Fee - Fee from the anticipated award of the Live! Casino in Philadelphia is assumed in base revenues. | \$50.0 | \$0.0 |
| Gaming Expansion - A significant portion of the expanded gaming revenue in the near term comes from one-time fees. | \$191.4 | \$42.8 |
| Monetization of Tobacco Master Settlement Agreement revenues. | \$1,500.0 | \$0.0 |
| Subtotal Revenues | \$2,066.20 | \$84.60 |
| TOTAL | \$2,359.40 | \$526.30 |

Education

Gov. Wolf's 2018/19 budget proposal continues to reverse the prior administration's cuts to school districts, and it seeks to make new investments in workforce development and high-quality early-learning programs.

PreK-12

The proposed 2018/19 budget requests \$10 billion in state General Funds for Pre-K-12 education (excluding pensions). This would represent an increase of \$341 million, or 3.5 percent, over 2017/18, if approved. Of the \$341 million increase, \$210 million, or almost two-thirds, is for new initiatives. Pre-K-12 education is one of the few areas of the budget with discretionary increases.

Basic Education Funding

The 2018/19 budget proposal would add \$100 million for basic education funding. Enactment of this proposal would mean \$638 million has been added back to the basic education subsidies in Gov. Wolf's first term. As illustrated on page 9, this investment would establish the proposed 2018/19 basic education subsidy total as the highest level ever, including the federal stimulus years.

Pennsylvania's new, more equitable fair funding formula only applies to funding above the 2014/15 adjusted base amount. Therefore, the proposed \$100 million increase would bring the total amount distributed through the fair funding formula in 2018/19 to \$539 million, or 8.8 percent, of the \$6.1 billion basic education funding appropriation (after accounting for Erie City SD's base adjustment).

In 2017/18, 7.6 percent of the basic education funding appropriation was distributed through the fair funding formula. As more funding is added, the share distributed fairly will represent a greater portion of the total.

Early Childhood Education

The 2018/19 budget proposal includes a \$40 million, or 17.7 percent, increase for early childhood education, which would allow 4,390 additional 3- and 4-year-olds to enroll in high quality early learning programs. If enacted, this proposal would mean Gov. Wolf, in his first term, has nearly doubled (from \$136 million to \$266 million, or a 95 percent increase) the state's investment in high quality early childhood education.

Career and Technical Education

Gov. Wolf's 2018/19 budget proposal calls for a \$50 million infusion in workforce development programs through PDE's career and technical education appropriation. A breakdown of the increase:

- \$10 million – a 16.1 percent increase in the current program where funds are allocated to school districts and career and technical centers to educate students
- \$25 million – for STEM and computer science related education in K-12 and postsecondary programs
 - \$15 million – expand computer science course offerings
 - \$5 million – grow STEM and computer science educator development
 - \$5 million – further develop postsecondary training programs related to STEM and computer science
- \$10 million – to promote and develop pathways for students and workers to achieve success in career and technical education fields
- \$5 million – to promote employer engagement in postsecondary education

Other Programs

- Gov. Wolf's 2018/19 budget proposal would increase **special education funding** by \$20 million, or 1.8 percent. This increase would be combined with the \$95 million added to the program since 2013/14 (the final year of a six-year string of flat funding for special education) and distributed through the Special Education Funding Commission's recommended formula.
- The \$111 million increase for **PlanCon** (authority rentals and sinking fund requirements) does not assume any funding for new projects. The appropriation reflects the amount necessary to meet the state's existing financial obligation, which is shared between the General Fund and bond revenues. The PA Public School Building Construction and Reconstruction Advisory Committee is still deliberating on what the new PlanCon program will look like when the current moratorium expires July 1, 2018.

Higher Education

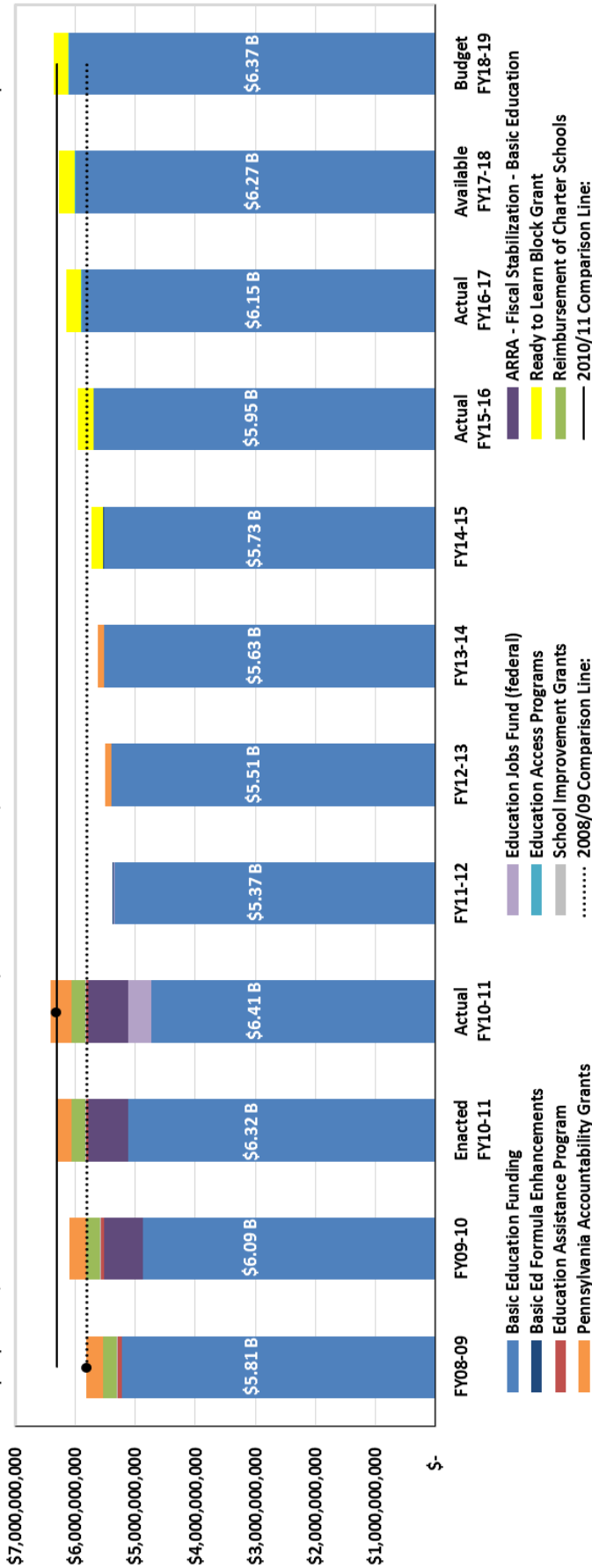
The governor's executive budget would increase funding for the Pennsylvania State System of Higher Education, or PASSHE, by \$15 million, or 3.3 percent. Of this increase, the governor is proposing that \$1 million be dedicated for Cheyney University.

Other institutional support of higher education, including appropriations for community colleges, the four state-related universities (Penn State, Pittsburgh, Temple and Lincoln), the Thaddeus Stevens College of Technology and institutional assistance grants for private colleges and universities receive flat funding in the proposal. PHEAA grants are also level funded.

Community college capital support, which is funded through an appropriation under the Department of Education to the Community College Capital Fund, receives a \$1.8 million increase in Gov. Wolf's proposed budget. This program pays 50 percent of capital project debt service or lease costs for approved projects at the 14 community colleges, so additional resources would provide extra capacity for projects.

The Basic Education Subsidies in the 2018/19 Budget Proposal Surpass 2010/11 Peak

The proposed \$100 million BEF increase for 2018/19 would mark a \$638 million increase for basic education subsidies under Gov. Wolf's leadership.



Note: The 2011/12 budget provided a \$100 million supplemental appropriation recorded in 2010/11 (Accountability Block Grant). However, those funds were spent in 2011/12, so comparison line backs it out.

Pensions

Gov. Wolf's 2018/19 budget proposes to again fully pay the state's annual required contribution (ARC) to both state pension systems. This is noteworthy because it is the second time in 17 years for the State Employees' Retirement System (SERS) and the third time in as many years for the Public School Employees' Retirement System (PSERS).

Each system's respective increase reflects the multi-year and predictable adjustments in employer funding to pay down the state's unfunded pension liability debt pursuant to the funding schedule provided for by the Act 120 reforms of 2010.

While the contribution amount increased, the magnitude of the increase is beginning to rapidly diminish as more of the contribution goes directly to paying down the debt (for PSERS, 75 percent of the employer contribution goes to the pension debt and for SERS, 85 percent of the employer contribution goes to the debt).

For the annually required employer contribution made to the PSERS Fund, the governor's 2018/19 budget proposal requests \$2.527 billion in state General Funds, which would represent an increase of \$263 million, or 12 percent, from 2017/18. For the third time in 17 years, the employer contribution made by the state would provide 100 percent of the actuarially required contribution.

The annually required employer contribution made to the SERS Fund is not provided in a single appropriation, but rather is allocated throughout every appropriation that includes personnel expenditures. Across the multitude of appropriations, the governor's 2018/19 budget proposal would include roughly \$685 million in state General Funds for offices under the governor's jurisdiction, which would represent an estimated increase of \$12 million, or 2 percent, from 2017/18. For the second time in 17 years, the employer contribution made by the state will provide 100 percent of the actuarially required contribution.

What is not immediately clear is whether the budget proposed by the governor includes the necessary allocation for funding the ongoing development of the defined contribution plans for each system created by Act 5 of 2017. We will continue to monitor this to determine if the systems receive the proper funding for the statutory charges they are instructed to implement.

Additionally, we will continue to evaluate how well the estimates generated in the fiscal note prepared for Act 5 align with actual costs incurred (and savings that were projected) in the June 3, 2017 actuarial analysis prepared by the Independent Fiscal Office. As expected, the enactment of the legislation will not provide budgetary savings for 2018/19 but will actually have a net cost as the systems implement various new provisions required by law.

Community & Economic Development

The governor's 2018/19 proposal for the Department of Community and Economic Development (DCED) largely reflects a cost-to-carry budget without appropriations traditionally added back by the Legislature during budget negotiations.

The largest increase for DCED in Gov. Wolf's 2018/19 budget would restore funding for Pennsylvania First, a comprehensive program offering grants for job creation and retention, infrastructure projects, and the popular workforce development program, **WEDnet**. The \$20 million ask for PA First represents a \$5 million, or 33 percent, increase, if approved, and a restoration of Pennsylvania First's 2016/17 funding level.

Gov. Wolf would maintain funding for the Manufacturing PA initiative he secured in 2017/18. The \$12 million request would provide funding for Industrial Resource Centers, new partnerships between

Pennsylvania's research universities and the centers, and a new manufacturing training-to-career grant program.

The budget would also flat fund Partnerships for Regional Economic Performance, or PREP, which includes a new, proactive business retention and expansion initiative called *Engage!*, a program the governor established in 2017/18.

The 2018/19 budget proposal includes no funding for the Intergovernmental Cooperation Authority-2nd class cities (Pittsburgh ICA), which Republicans zeroed-out in 2017/18. Created by Act 11 of 2004, the law says DCED may not certify the authority as no longer necessary until Act 47 oversight is terminated or June 30, 2019, whichever is later.

Pittsburgh is expected to exit Act 47 this year and the ICA board has voted to dissolve the authority. However, the ICA cannot be dissolved until the General Assembly makes a statutory fix to allow DCED to certify the authority as no longer necessary when Act 47 oversight is terminated.

Labor and Industry

The governor is proposing two notable workforce and training initiatives in the Department of Labor and Industry:

- A new \$7 million appropriation to expand apprenticeships and work-based learning initiatives.
- A \$3 million increase for the industry partnerships program, which helps groups of employers in the same sector meet common training needs to keep incumbent workers competitive and productive.

The executive budget proposal also includes a \$737,000, or 1.6 percent, increase for the Office of Vocational Rehabilitation, which helps Pennsylvanians with disabilities find employment.

Environmental Protection

Gov. Wolf's 2018/19 budget proposes \$154.57 million in General Fund spending for the Department of Environmental Protection, which would be \$8.1 million, or 5 percent, more than in 2017/18.

New investments of \$2.5 million to help DEP grow its complement and address a wide range of environmental issues facing the commonwealth has also been proposed by the governor.

This funding would allow DEP to hire 35 additional staff who would be assigned to program areas related to overseeing high-hazard dams, ensuring adequate air monitoring support in areas of natural gas drilling, and reviewing sewage expansion requests.

DEP's 2018/19 budget would also see funding **restored for various interstate commissions** to 2016/17 funding levels, including the Delaware River Master, the Interstate Commission on the Potomac River, the Delaware River Basin Commission, the Susquehanna River Basin Commission, and the Ohio River Valley Water Sanitation Commission.

Conservation and Natural Resources

The total Department of Conservation and Natural Resources budget across all funds would grow to \$391.9 million, a 4 percent increase over 2017/18, under the governor's new request.

DCNR's General Fund appropriation of \$121.2 million would represent a \$16 million, or 15 percent, increase over 2017/18, if approved.

Gov. Wolf's 2018/19 budget proposes to continue using Oil and Gas Lease Fund revenues to support DCNR's operational expenses. Specifically, the Oil and Gas Lease Fund is targeted to provide \$7.5 million for state parks and \$4.1 million for state forests and is in addition to General Fund appropriations.

The governor's DCNR proposal also accounts for a recent state Supreme Court ruling limiting transfers from the Oil and Gas Lease Fund. In *Pennsylvania Environmental Defense Foundation v. Commonwealth of Pennsylvania*, the court ruled the previous transfers unconstitutional as they were deposited in the General Fund and not directed for conservation purposes. In 2017-18, the General Assembly attempted to clarify this issue for the courts by explicitly directing these funds for conservation purposes through an appropriation. The governor's proposed budget continues that practice.

A portion of the General Fund appropriations for state parks (\$1.8 million) and state forests (\$1.5 million) would be dedicated to the statewide radio upgrade.

Agriculture

Gov. Wolf's 2018/19 budget proposes \$141.7 million in General Fund spending for the Department of Agriculture. This represents a \$2 million, or 1 percent, decrease compared to 2017/18.

The governor's budget also seeks to eliminate appropriations traditionally added back by the legislature, including funding for agriculture research and shows, and funds for marketing and promotion.

Gov. Wolf's 2018/19 budget would provide an additional \$1.59 million in the department's appropriation to address the Spotted Lanternfly problem.

Spotted Lanternfly is an invasive insect that has become a major pest to Pennsylvania farmers and rural communities, including the grape, hops and logging industries. Spotted Lanternfly has been discovered in 13 counties in eastern and southeastern Pennsylvania, but experts anticipate the insect's spread.



The requested new funds would leverage additional federal dollars for the creation of a rapid response team to detect and eradicate this pest. This team would coordinate a multi-agency response, provide outreach and training, and purchase and distribute supplies.

Health & Human Services

Agency Consolidation

Gov. Wolf is proposing to consolidate two agencies – the Department of Health and the Department of Human Services – into a unified Department of Health and Human Services, or DHHS. This year's proposal is more limited in scope than that offered by the governor as part of his 2017/18 budget, as it would retain the Department of Aging and the Department of Drug and Alcohol Programs alongside the new DHHS.

The Executive Budget assumes that this consolidation will yield administrative efficiencies and improve service delivery for Pennsylvanians who rely on these programs through a single, streamlined entity. In line with this proposal, the administration has already created a shared service delivery center for back-end administrative and budgetary functions of all four health-related departments to reduce administrative redundancies and direct more resources to service delivery.

- Retains Physician General alongside DHHS Secretary
- Creates an Office of Medical Marijuana within the agency
- Establishes 10 Deputy Secretaries
- Unifies program administration in areas like SNAP, TANF, WIC, and LIHEAP

Human Services

The governor is proposing expenditures of \$12.6 billion from the General Fund in 2018/19 for the Department of Health and Human Services, which is a net increase of \$221 million above the agency's revised 2017/18 expenditures. The table on page 13 shows the governor's state General Fund budget request for HHS.

The governor is seeking a net upward revision of \$23.6 million in 2017/18 state General Fund appropriations. The proposed changes, which are concentrated in Medical Assistance and long-term living programs, are due primarily to: (1) increased use of managed care assessment revenue in place of General Funds for Medical Assistance; (2) shifting nursing facility expenditures from the Lottery Fund to the General Fund; and (3) higher utilization and costs for the various community-based waiver programs serving seniors and people with physical disabilities. The reduction in Medical Assistance also reflects a number of factors that reduce program expenditures, including lower utilization and costs.

| Health and Human Services Proposed State General Fund Budget | | | | | |
|---|-----------------------|-------------------------|------------------|-------------------------|------------------------|
| <i>(Dollars in Millions)</i> | | | | | |
| Program Area | FY 2017/18 | | | FY 2018/19 | Change vs. |
| | Enacted Budget | Executive Budget | Revisions | Executive Budget | 2017/18 Revised |
| Medical Assistance & CHIP | \$4,596.6 | \$4,376.9 | -\$219.6 | \$4,350.0 | -\$26.9 |
| Long Term Living (for seniors & people with physical disabilities) | \$2,276.3 | \$2,521.9 | \$245.7 | \$2,665.3 | \$143.4 |
| Intellectual Disabilities & Autism | \$1,964.7 | \$1,963.6 | -\$1.1 | \$2,007.7 | \$44.1 |
| Mental Health & Substance Abuse | \$827.8 | \$820.0 | -\$7.8 | \$834.4 | \$14.5 |
| County Child Welfare | \$1,180.9 | \$1,180.9 | \$0.0 | \$1,225.4 | \$44.5 |
| Child Development | \$444.1 | \$451.7 | \$7.6 | \$478.7 | \$27.1 |
| Other Human Services (DHS) | \$315.1 | \$314.0 | -\$1.1 | \$319.8 | \$5.8 |
| Health Programs (moved over) | \$163.4 | \$168.8 | \$5.4 | \$158.5 | -\$10.3 |
| <u>Administration (consolidated)</u> | <u>\$549.7</u> | <u>\$544.3</u> | <u>-\$5.4</u> | <u>\$523.5</u> | <u>-\$20.8</u> |
| Total | \$12,318.4 | \$12,342.0 | \$23.6 | \$12,563.2 | \$221.2 |

The department's overall budget request (counting state, federal and other funds) totals \$40.5 billion, which represents an increase of \$2.02 billion compared to 2017/18. Most of the increase is growth in revenue from other funding sources, namely the various assessments/taxes collected from Medical Assistance providers. Additional revenue from other funding sources is estimated to reduce the General Funds required for the department's 2018/19 proposed budget by \$740 million.

Medical Assistance

Gov. Wolf seeks to continue the same level of health care services and eligibility for Medicaid Assistance (MA).

The Executive Budget estimates monthly MA caseload will grow by 206,000 people to 2.35 million in 2018/19, an increase of 10 percent compared to the 2017/18 caseload estimate of 2.15 million. These projections include a slight increase in the number of newly eligible adults receiving health care coverage under Medicaid expansion – the budget assumes nearly 790,000 newly eligible adults in 2017/18 and 794,000 in 2018/19. Most MA recipients receive health care coverage through managed care (funded through the capitation appropriation); all other MA recipients receive health care through the department's fee-for-service delivery system.

Total MA funding in the governor's budget would increase more than \$1 billion in 2018/19 to \$20.4 billion, which reflects growth in revenues from other funding sources -- including the assessments on managed care organizations (MCOs) and hospitals, as well as the MCO gross receipts tax -- that reduce the need to spend General Funds for 2018/19 MA expenditures.

State General Fund revenue comprises \$4.35 billion (or about one-fifth) of the proposed 2018/19 Medical Assistance budget, a \$27 million decrease below the revised 2017/18 spending level. The year-over-year decrease in state MA spending reflects the following factors:

- \$351.7 million in one-time revenue from the MCO gross receipt tax, used in place of state General Funds, to finance managed care expenditures in the capitation appropriation. Pennsylvania terminated this tax after December 2016 because it no longer complied with federal rules. This amount is the final tax payment remitted by MCOs in March 2017.
- \$390.4 million in additional assessment revenue, including \$25 million from a proposed assessment on ambulatory surgical centers, that further reduce state General Fund spending. The revenue would offset managed care (\$287 million) and fee-for-service (\$103.4 million) expenditures.
- \$132.4 million of reductions in managed care (\$70 million) and fee-for-service (\$62.7 million) associated with implementation of the Community HealthChoices program. (See long-term living section below.) This reflects proposed transfers to the new Community HealthChoices appropriation to support MA recipients transitioning to Community HealthChoices in the southeast beginning Jan. 1, 2018, and to annualize the savings of MA recipients from the southwest who moved to the program in 2017/18.

The above reductions are offset by these MA cost drivers:

- \$338 million for costs associated with the change in managed care enrollments and rate increases paid to managed care organizations (MCOs). We do not yet know what the rates will be.
- \$118 million for the prior year rate reconciliation for MCOs.
- \$49 million in higher state costs for Medical Assistance Managed Care provided to newly eligible adults under Medicaid expansion. As specified in the Affordable Care Act (ACA), the federal matching rate decreases from 95 percent to 94 percent in calendar year 2018 and to 93 percent in calendar 2019. Consequently, the state share of Medicaid expansion costs increases from 6 percent to 7 percent, effective Jan. 1, 2019.
- \$75.6 million to reimburse MCOs for the ACA health insurance provider fee. The federal government temporarily suspended the fee for calendar year 2017, but the fee returns in 2018.
- \$75 million increase in Medicare Part D payments due to the impact of the 2017/18 expenditure rollback. This state appropriation increases \$75 million in 2018/19 to replace the prior year state revenue that was used to pay for 2017/18 Medicare Part D payments.

Long-Term Living

The department's long-term living programs assist the elderly and persons with physical disabilities with services that range from institutional care in a nursing facility to home and community-based care offered through various waiver programs.

In January 2018, the department began Community HealthChoices (CHC), the name of Pennsylvania's new managed long-term living program. Under Community HealthChoices, individuals enroll with a managed care organization that coordinates their physical health care and long-term care needs. Individuals may choose from three CHC managed care organizations under contract with the department. The department pays each managed care organization a capitated rate per enrollee per month. CHC is being implemented in three phases.

- Phase I began Jan. 1, 2018, in the 14-county southwest region of the state. More than 85,000 individuals enrolled in CHC, exceeding the department's estimate of 80,000 participants.
- Phase 2 was to begin July 1, 2018, in the five-county southeast region; however, the department announced in November that implementation would be delayed until Jan. 1, 2019.
- Phase 3 was to begin Jan. 1, 2019, in the rest of the state; however, that date was postponed to Jan. 1, 2020.

The governor proposes \$2.7 billion in General Funds (\$8.5 billion from all funding sources) for long-term living programs in 2018/19.

General Fund spending, if approved, represents an increase of \$143 million above the revised 2017/18 state spending level. For 2017/18, the governor is requesting a \$244 million net supplemental appropriation increase as follows:

- \$54.9 million in the long-term care appropriation to replace Lottery Fund revenue previously ordered by Act 1A-2017 to support nursing facility care. This proposed reduction in Lottery Funds is part of the governor's multi-year proposal to shore up the Lottery Fund.
- \$203 million increase to cover community waiver expenditures across three appropriations: home- and community based services (\$151 million), services for persons with disabilities appropriation (\$27 million) and attendant care (\$25 million).
- \$7.2 million decrease for the LIFE program, funded through the long-term care managed care appropriation.

The Executive Budget includes a separate appropriation for Community HealthChoices in 2018/19 – the program is funded in the 2017/18 budget through the long-term care appropriation – and requests \$694 million from the General Fund to support the program. Overall CHC funding totals \$3.2 billion, making CHC the largest component of the proposed long-term living budget. State spending makes up about 22 percent of overall CHC funding which includes \$1.7 billion federal Medicaid funds and \$837 million other funds.

Proposed funding for long-term care includes \$864 million state General Funds, a decrease of \$275 million compared to 2017/18. The year-over-year reduction reflects the proposed transfer of CHC funding from the long-term care appropriation to a new Community HealthChoices appropriation. This reduction is partially offset by the following factors that increase state spending in 2018/19:

- \$81.6 million to replace non-recurring prior year funds associated with the expenditure rollback in the 2017/18 enacted budget.
- \$8.8 million for preadmission assessment activities for the CHC program. These expenditures were previously covered in the Lottery Fund.

The 2018/19 request for each of the three appropriations that fund community-based waiver programs is less than the 2017/18 funding level. The proposed decreases are due to funding that is transferred to the Community HealthChoices appropriation to support waiver consumers from the southeast who will transition to CHC beginning Jan. 1, 2018, and to annualize the savings of waiver consumers from the southwest who moved to the program in 2017/18. The CHC transfer reduces state spending as follows:

- Home- and community-based services (which funds the aging waiver for seniors) reflects a \$257 million reduction.
- Services to persons with physical disabilities (which houses two waiver programs) reflects a \$159 million reduction.
- Attendant care reflects an \$85 million reduction.

These reductions are partially offset by the governor's proposal to increase funding for community waiver programs so that an additional 5,230 people receive services in 2018/19. The governor requests additional state funding, as follows:

- Home- and community- based services increases \$26.8 million to provide aging waiver services to 2,290 additional seniors;
- Services to persons with disabilities increases \$22.5 million to provide waiver services to 1,500 adults with severe disabilities; and
- Attendant care increases \$10.8 million to serve 60 additional adults.

Additionally, state funding for home and community based services reflects the governor's proposal to replace the special fund revenue used in 2017/18 to help fund the aging waiver, and to use the special revenue for the Community HealthChoices appropriation. Consequently, the state General Fund appropriation for home-and community-based services includes a \$97 million increase to replace Tobacco Settlement Funds (\$50.3 million) and Lottery Funds (\$47.1 million).

The governor also seeks \$5.5 million in state funds to expand LIFE program services to 480 additional seniors in 2018/19. People already in a LIFE program will not be moved into CHC unless they specifically ask to transition from LIFE and enroll in a CHC managed care organization.

Intellectual Disabilities and Autism

The governor is proposing \$2 billion in state funding for programs serving individuals with intellectual disabilities (ID) and autism. This would be a \$44 million increase from 2017/18. The total funding request (including federal Medicaid matching funds) is \$4.1 billion, which is \$95 million more than the prior year.

Most of the requested increase is for the ID community waiver programs. Part of the state funds increase, \$15.5 million, is proposed to expand community waiver services to an additional 925 individuals, including:

- 100 people on the emergency waiting list,
- 800 students graduating from special education, and
- 25 individuals currently residing in the state ID centers.

The governor is also seeking to expand the adult community autism waiver program by including \$688,000 in state funding so that an additional 40 adults would receive services in 2018/19.

The governor's proposed budget includes \$10.44 million in projected savings attributable to the previously announced closure of one of the commonwealth's state centers for individuals with intellectual disabilities. The plan calls for the Hamburg facility to close by July 2018, with all current residents transferred to other facilities or accommodated in community-based care settings.

Child Development and County Child Welfare

The governor is seeking \$492 million from the General Fund for child development programs, an increase of \$27 million over 2017/18.

Gov. Wolf proposes \$28 million in total funding (\$25 million state and \$5 million federal) for the following child care initiatives:

- \$10 million in state funding to serve an additional 1,600 children on the low-income waiting list,
- \$10 million in state funding to increase reimbursement rates for STAR 2, STAR 3 and STAR 4 program. The state dollars are augmented with \$5 million federal funds, and
- \$3 million in state funding for a one-year pilot program focused on children under age three, designed to improve access to continued enrollment in high-quality early care.

The governor also seeks a \$5.3 million increase in state funding for community-based family centers for the following purposes:

- \$4.5 million to provide evidence-based home visiting services to 800 families affected by the opioid epidemic, and
- \$0.8 million for rate increases to community-based family center providers.

Additionally, the governor is requesting \$1.2 million in state funds for a rate increase for providers in the nurse family partnership program.

The Executive Budget proposes state spending of \$1.225 billion for county child welfare in 2018/19. This includes \$41.34 million of increased state funding for county needs-based budgets.

Health

Within the newly-consolidated DHHS, Gov. Wolf proposes an overall funding reduction of 15.7 percent, compared to 2017/18, for those appropriations formerly housed under the Department of Health. This decrease in expenditures would be due to combined administrative operations within the new DHHS, although there would also be numerous specific appropriations eliminated that are, traditionally, added back by the legislature. As part of the budget proposal, these condition- and program-specific appropriations would be consolidated into the appropriation for health program assistance (see chart).

| Consolidated Department of Health Appropriations (amounts in 1000s) | 2017/18 Enacted | Prior Year Proposals | 2018/19 Proposed |
|--|----------------------------|---------------------------------|-----------------------------|
| Diabetes Programs | 100 | | |
| Regional Cancer Institutes | 600 | | |
| Adult Cystic Fibrosis & Chronic Respiratory Illnesses | 750 | 350 | |
| Cooley's Anemia | 100 | 100 | |
| Hemophilia | 959 | 949 | |
| Lupus | 100 | | |
| Sickle Cell | 1,260 | 1,200 | |
| Regional Poison Control Centers | 700 | | |
| Trauma Program Coordination | 460 | | |
| Epilepsy Support Services | 550 | | |
| Bio-Technology Research | 5,425 | | |
| Tourette Syndrome | 150 | | |
| Amyotrophic Lateral Sclerosis (ALS) Support Services | 500 | | |
| Subtotal - Existing Dept. of Health Appropriations | 11,654 | 2,599 | |
| Appropriations previously in Department of Health would be consolidated under a single appropriation in Department of Health and Human Services. | | | |
| Health Program Assistance | 5,000 | | 2,599 |

While the 2018/19 budget proposal largely maintains funding for operations across numerous health-related appropriations, two new initiatives are included:

- \$2.5 million – included in the GGO appropriation to help combat Lyme disease through increased education, prevention, and tracking; and
- \$2.35 million – included in the vital statistics appropriation to support processing of additional birth certificates as a result of federal “Real ID” law.

Finally, the Executive Budget proposal would retain PHEAA business earnings as the funding mechanism for the primary health care practitioner loan repayment program as implemented in the prior year.

Responding to the Opioid Crisis

The 2018/19 budget proposal continues targeted investments in numerous programs and agencies to address the scourge of heroin and opioid abuse across the commonwealth. Gov. Wolf recently took the unprecedented step of signing a statewide disaster declaration to increase coordination and improve response to this public health crisis, and the 2018/19 budget proposal reflects a continuing commitment and focus on implementing a holistic strategy to confront this issue.

| New State General Funds Committed to Heroin and Opioid Initiatives under Gov. Wolf | | | | | |
|---|-------------------|-------------------|----------------------|-------------------|-----------------------------------|
| <i>Amounts in \$1,000s</i> | 2015/16 Actual | 2016/17 Actual | 2017/18 Available | 2018/19 Budget | Four-Year Total New Investment |
| Department of Drug and Alcohol Programs (SCAs)* | 3,500 | 4,250 | 3,500 | 3,500 | 14,750 |
| Department of Human Services (COEs, CBFC Home Visit) | - | 15,000 | 19,032 | 23,532 | 57,564 |
| Department of Health (ABC-MAP Registry) | 2,146 | 3,153 | 3,023 | 3,077 | 11,399 |
| Department of Corrections (MAT Pilot Program)* | 1,500 | - | | | 1,500 |
| Pennsylvania Commission on Crime & Delinquency | - | - | 7,000 | 2,000 | 9,000 |
| Office of Attorney General** | | | | 6,432 | 6,432 |
| Total Budgeted Funds | 7,146 | 22,403 | 32,555 | 38,541 | 100,645 |
| *Gov. Wolf requested \$5 million in additional funding for the SCAs in 2015/16, the General Assembly split this amount with \$1.5 M to DOC | | | | | |
| **Gov. Wolf requested \$6.432 million in additional funding for the Office of Attorney General which will be primarily directed to fighting the opioid crisis | | | | | |

Lottery Fund

Through a combination of expenditure adjustments and new games, the governor is proposing a plan to rebuild the Lottery Fund and return it to positive ending balances by June 30, 2018. The fund had ended 2016/17 with an \$18.2 million deficit and, without corrective action, the deficit was projected to rise to \$78 million by the close of 2017/18.

The Executive Budget reflects the following revenue and expenditures, which would leave the Lottery Fund with positive ending balances of \$1.3 million in 2017/18 and \$7 million in 2018/19.

- Lottery funds available to spend -- including investment earnings and lapses -- are expected to total \$1.8 billion in 2017/18 and \$1.855 billion in 2018/19.
- Proposed spending – including funding for lottery operations, commissions paid to vendors and retailers, prizes paid to winning ticket holders, and programs benefiting Pennsylvania’s seniors – is \$1.798 billion in 2017/18 and \$1.848 billion in 2018/19.

The Pennsylvania Lottery is preparing to roll out new games this spring, including virtual sports monitor games, as well as iLottery and Keno, which were authorized as part of the 2017 gaming legislation (Act 42). These games are projected to boost sales by \$76 million in 2017/18 and \$462 million in 2018/19, returning net profits of \$9.4 million in 2017/18 and nearly \$71 million in 2018/19 to support senior programs.

The table on page 19 details proposed spending for senior programs. The governor is seeking to revise 2017/18 spending, via the following supplemental appropriations which would yield a net decrease of \$24.8 million:

- \$30 million supplemental increase for the Pharmaceutical Assistance Fund to cover higher program costs due to the PACE/PACENT dispensing fee in Act 40 of 2017. The amount appropriated in Act 1-A of 2017 was predicated on savings associated with reducing the dispensing fee from \$13.00 per prescription to \$7.00 per prescription; however, Act 40 only reduced the fee to \$10.49.
- \$54.8 million supplemental decrease for Medical Assistance long term care, reducing the appropriation from \$184.1 million to \$129.3 million.

Proposed 2018/19 spending for senior programs reflects the following changes:

- The first-time use of Lottery Fund revenue (\$153 million) to support the Community HealthChoices program in the Department of Human Services (DHS). This new program provides managed long term services and supports to seniors and people with physical disabilities.
- The continued phase-down of Lottery Funds used for Medical Assistance long term care, which funds nursing home care in DHS. The proposed \$47.9 million decrease is in addition to the \$54.8 million decrease in the governor’s requested 2017/18 supplemental appropriation decrease.

- Reduced funding for home and community based services, which funds the aging waiver in DHS.
- Reduced funding for PENNCARE, which is primarily due to attendant care users being transferred to the Community HealthChoices program.
- Reducing funding for pre-admission assessment, reflecting the proposed shifting of expenditures to the DHS General Fund budget, where the dollars will be for assessment activities related to the Medical Assistance program.
- Reduced need for Lottery Funds transfer to support the PACE program.

| Lottery Fund Expenditures for Senior Programs | | | |
|--|-------------------------|--------------------|--------------------|
| <i>(Dollars in Thousands)</i> | | | |
| Agency/Appropriations | Executive Budget | | Change from |
| | 2017/18 * | 2018/19 | 2017/18 |
| Department of Aging: | | | |
| PennCARE | \$336,062 | \$333,778 | -\$2,284 |
| Pharmaceutical Assistance Fund | \$155,000 | \$140,000 | -\$15,000 |
| Pre-Admission Assessment | \$19,916 | \$8,750 | -\$11,166 |
| Caregiver Support | \$12,103 | \$12,103 | \$0 |
| Grants to Senior Centers | \$2,000 | \$2,000 | \$0 |
| Alzheimer's Outreach | \$250 | \$250 | \$0 |
| Department of Human Services: | | | |
| Medical Assistance Long-Term Care | \$129,281 | \$81,381 | -\$47,900 |
| Community HealthChoices | | \$153,084 | \$153,084 |
| Home and Community Based Services | \$120,668 | \$70,390 | -\$50,278 |
| Medical Assistance Transportation | \$3,500 | \$3,500 | \$0 |
| Department of Revenue: | | | |
| Property Tax and Rent Rebate | \$264,700 | \$262,800 | -\$1,900 |
| Department of Transportation: | | | |
| Transfer to Public Transportation Trust Fund (Free Ride) | \$95,907 | \$95,907 | \$0 |
| Shared Ride | \$82,975 | \$82,975 | \$0 |
| TOTAL LOTTERY FUNDS | \$1,222,362 | \$1,246,918 | \$24,556 |

* 2017/18 includes a supplemental appropriation increase for Pharmaceutical Assistance Fund (\$30 million) and a supplemental appropriation decrease for Medical Assistance Long Term Care (-\$54.8 million).

Tobacco Settlement Fund

The Executive Budget anticipates the commonwealth will receive payments of \$359 million from tobacco manufacturers in April 2019 for deposit in the Tobacco Settlement Fund. The following table shows how Gov. Wolf proposes allocating these revenues to specific health-related programs in 2018/19.

| Tobacco Settlement Fund | | | |
|--|-----------------------|---------------------------------|--------------------|
| Health-Related Programs | Act 71 of 2013 | Executive Budget 2018/19 | |
| | Allocation % | Allocation % | \$ Millions |
| Home and Community-Based Services | 13% | 0% | \$0.0 |
| Tobacco Use Prevention and Cessation | 4.5% | 4.5% | \$16.1 |
| Health and Related Research (CURE) | 13.6% | 12.6% | \$45.2 |
| Hospital Uncompensated Care | 8.18% | 8.18% | \$29.3 |
| Medical Assistance for Workers with Disabilities | 30% | 30% | \$107.6 |
| PACenet Transfer | 8% | 0% | \$0.0 |
| Health-Related Purposes: | 22.72% | 43.72% | |
| Medical Assistance - Long Term Care | | | \$20.9 |
| Life Sciences Greenhouses | | | \$3.0 |
| Community HealthChoices | | | \$132.9 |
| TOTAL | | | \$355.0 |

As in his previous budgets, Gov. Wolf is recommending changing the statutory formula enacted in 2013 (Act 71) for allocating annual tobacco payments to specific programs. For 2018/19, the governor proposes the following changes to the statutory formula:

Eliminate the funding allocation for home- and community-based services,
Reduce the funding allocation for health and related research from 13.6 percent in Act 71 to 12.6 percent,
Eliminate the funding allocation for the PACENET Transfer, and
Increase the funding allocation for health-related purposes from 22.72 percent in Act 71 to 43.72 percent
These proposed changes to the allocation formula would redirect nearly \$133 million of tobacco revenue to the new Community HealthChoices program. This program, which is debuting this year, is an attempt to allow older Pennsylvanians to continue to live in their homes and communities while still receiving all necessary health care and long term living assistance.

The allocation for health and related research under the Commonwealth Universal Research Enhancement (CURE) grant program would be returned to prior year levels after a cut in 2017/18.

While the proposed securitization of a portion of future year tobacco revenues will be finalized in the very near future, the first debt service payments will not be due until the 2019/20 fiscal year. As a result, no immediate programmatic cuts were necessary this fiscal year.

Transportation

The 2018/19 budget proposal includes \$6.6 billion in state funding for the Department of Transportation, which would be an increase of \$328 million, or roughly 5 percent, over 2017/18, if approved.

The governor's budget proposal includes \$100 million in new funding from the Motor License Fund for targeted road and bridge construction and maintenance, totaling more than \$300 million over the next five years. It also seeks \$50 million in one-time funding for expanded maintenance improvements; and \$50 million in recurring dollars for rural commercial routes, municipal bridge improvements and bundling.

The funding would be allocated into three components:

- Expanded Maintenance Improvements – \$50 million in one-time funding for low traffic state roads throughout the commonwealth. PennDOT would use lower-cost pavement treatments, including recycled asphalt.

- Rural Commercial Routes - \$40 million annually for the restoration and repair of rural commercial routes impacted by overweight vehicle exemptions for local deliveries. This would provide upwards of 100 miles of improvements per year.
- Municipal Bridge Replacement and Rehabilitation -- \$10 million annually for replacement or rehabilitation of locally owned bridges. The application of bundling the replacement and/or rehabilitation of locally owned bridges with state-owned bridges would lower total project costs. Upwards of 100 bridges would be replaced over the five-year period.

The governor's budget proposal also seeks \$32 million of additional funding for highway and safety improvements, \$16 million more for highway systems technology and innovation, and \$5 million more for reinvestment in facilities.

The governor's budget proposal asks for a \$134 million increase for multimodal transportation, which mostly reflects additional funds for mass transit operating and capital improvements.

The governor's budget proposal also requests an additional \$28 million to comply with federal REAL ID requirements by the U.S. Department of Homeland Security.

Pursuant to Act 89 of 2013 -- and beginning in 2022/23 -- the PA Turnpike's annual \$450 million payment that supports mass transit will drop to \$50 million and the balance will be supplanted by sales and use taxes on motor vehicles, trailers and semi-trailers. As we evaluate the 2018/19 budget submitted by the governor, we will closely monitor the discussion on the out-year funding for transportation.

Law Enforcement, Public Safety & Criminal Justice

Criminal Justice

The governor's budget proposal again provides funding for the Department of Corrections and the Pennsylvania Board of Probation and Parole under the consolidated Department of Criminal Justice. The consolidation process was formally initiated with a memorandum of understanding between DOC and PBPP in October 2017 that kicked off a 12-month planning and implementation process.

The 2018/19 budget proposal requests \$2.5 billion in state General Fund appropriations for the combined department. This means cost increases would be contained at \$104.3 million, or 4.3 percent, compared with 2017/18. After 2017/18's decrease in spending, the department would still spend less than two years ago in 2016/17.

Level funding would be provided for grants to county probation departments. Spending for general government operations under the consolidated structure would decrease by \$1.5 million, or 3 percent.

The largest share of increased spending would be allocated to state correctional institutions where costs are largely driven by personnel (\$70.9 million, or 68 percent of the department increase), and inmate medical care within those facilities (\$19.2 million, or 18 percent of the department increase).

Juvenile Court Judges' Commission

The governor's proposal would provide a 5 percent funding increase for the Juvenile Court Judges Commission to maintain the current program.

Commission on Crime and Delinquency

The governor's proposal includes \$2 million to continue the initiative to combat opioid addiction by expanding drug courts. All other PCCD programs and grants are level-funded in the 2018/19 proposal.

Local Criminal Justice Funding

The governor's proposal would maintain level funding to support the administration of criminal justice programs at the local level, including grants to counties for intermediate punishment programs, adult and juvenile county probation, and county court grants and reimbursements.

State Police

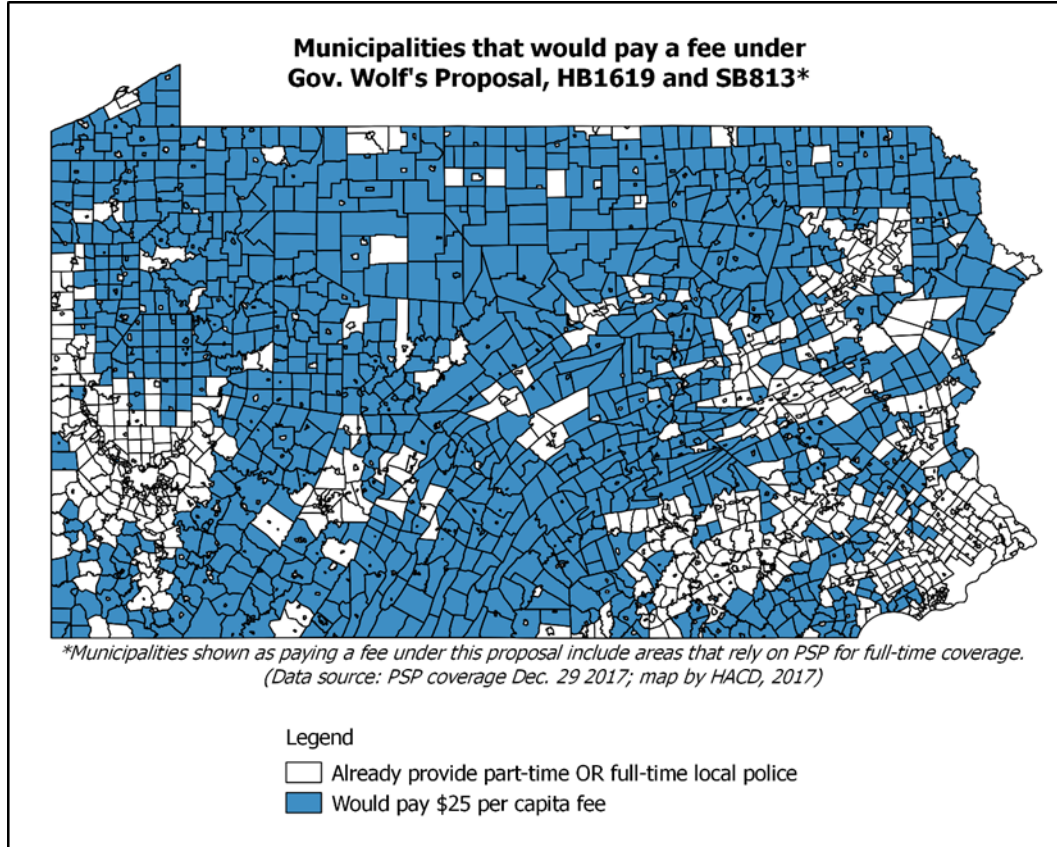
The governor's budget proposal would increase funding for State Police by \$84.3 million, or 6.8 percent, over the current year, 2017/18. This funding increase would come primarily from augmentation revenue raised by existing and new fees. The General Fund appropriation would increase by just \$8.8 million; enough to offset the required decrease from the Motor License Fund.

Use of the Motor License Fund for PSP is capped at \$769.7 million for 2018/19 under amendments to the Fiscal Code in 2016. That amount reflects a 4 percent, or \$32 million, decrease from the baseline of 2016/17 levels. In the governor's budget proposal, PSP would receive the full cap amount, which leaves no room to fill in funding gaps from the MLF if other proposed revenue cannot be raised.

Most of the fee revenue would come from a \$25 per capita fee on municipalities that rely on PSP for full time coverage (also proposed in 2017/18 (see map)), that is projected to raise \$63.2 million in the budget year. Another \$21 million would come from increased fee revenue from criminal history record checks, enabled by higher rates that went into effect Nov. 25, 2017.

The governor's proposal would provide \$6 million to implement a pilot program to equip PSP with body cameras. This amount would build an effort already underway to roll out body cameras for three troops, which is also supported by a \$52,000 federal grant.

The modernization efforts would continue for the Statewide Radio System, with investments from State Police appropriations and across other agencies (Conservation and Natural Resources, Criminal Justice, Emergency Management, General Services, and Military and Veteran's Affairs).



Pennsylvania Emergency Management Agency (PEMA)

Gov. Wolf's 2018/19 budget proposes \$15.8 million in General Fund spending for the Pennsylvania Emergency Management Agency (PEMA), which represents a \$14.9 million, or 48 percent, decrease over 2017/18. This substantial reduction in General Fund spending reflects nonrecurring program costs.

PEMA's general government operations appropriation would be \$13.1 million, a \$2.3 million increase over the current year. However, \$2 million of this increase would be directed to the **statewide radio system upgrade**.

The 2017/18 budget directed \$15 million to the Emergency Management Assistance Compact, a mutual aid agreement between states that allows for the sharing of resources in the event of natural or man-made disasters. In 2017, Pennsylvania helped Puerto Rico, Texas and Florida, which were battered during the hurricane season. This \$15 million expenditure would be nonrecurring in the governor's 2018/19 budget proposal.

The 2017/18 budget also provides \$2.2 million for other disaster relief efforts in Pennsylvania and allowed the state to receive federal matching support for flood cleanup efforts. This \$2.2 million expenditure is listed as nonrecurring in the governor's 2018/19 budget proposal.

Attorney General

The governor's budget proposal would increase the funding for the Office of Attorney General, primarily for providing additional resources to combat Pennsylvania's heroin and opioid epidemic. Spending on general operations for the Attorney General would increase by \$4.74 million, or 12.1 percent, with most of the increase directed to fighting the opioid crisis. Funding for drug law enforcement and local drug task forces would also increase by \$1.1 million (3.8 percent) and \$590,000 (4.5 percent), respectively. The governor's proposal would also provide \$245,000 in additional funds to combat gun violence through the Attorney General's joint local-state firearm task force, which would represent an increase of 6.1 percent.

Military and Veterans Affairs

This budget proposal would significantly increase funding for veterans services. The Department of Military and Veterans Affairs is set to receive an increase of nearly \$5 million, or 21.3 percent, over 2017/18. Additionally, spending on the commonwealth's six veteran's homes would increase by 6.6 percent, or \$6.5 million. This proposed increase would allow for an additional 99 beds to be filled in 2018/19. The governor is also looking to direct an additional \$500,000 for outreach to Pennsylvania veterans to ensure their connection to all available services.

General Fund Agency Totals - State Appropriations

Appropriations proposed to move to a different agency are totaled in the new location for all years

Dollars in Millions

| Agency | 2017/18 With Supplemental Appropriations | 2018/19 Executive Budget | Budget Less Revised | % Change |
|--|--|--------------------------|---------------------|-------------|
| Governor's Office | 6.5 | 6.5 | 0.0 | 0.0% |
| Executive Offices | 179.8 | 179.5 | (0.3) | (0.2%) |
| Lieutenant Governor | 1.7 | 1.7 | 0.1 | 3.5% |
| Attorney General | 95.6 | 103.0 | 7.5 | 7.8% |
| Auditor General | 42.0 | 42.9 | 0.9 | 2.3% |
| Treasury | 1,169.4 | 1,173.7 | 4.3 | 0.4% |
| Aging | 0.0 | 0.0 | 0.0 | |
| Agriculture | 143.8 | 141.8 | (2.0) | (1.4%) |
| Community and Economic Development | 145.2 | 123.3 | (22.0) | (15.1%) |
| Conservation and Natural Resources | 105.2 | 121.2 | 16.0 | 15.2% |
| Criminal Justice | 2,437.7 | 2,542.1 | 104.3 | 4.3% |
| Probation and Parole | 0.0 | 0.0 | 0.0 | |
| Drug and Alcohol Programs | 46.2 | 46.5 | 0.3 | 0.6% |
| Education | 12,210.9 | 12,816.8 | 605.8 | 5.0% |
| Pennsylvania State University | 252.5 | 252.5 | 0.0 | 0.0% |
| University of Pittsburgh | 147.0 | 147.0 | 0.0 | 0.0% |
| Temple University | 150.6 | 150.6 | 0.0 | 0.0% |
| Lincoln University | 14.4 | 14.4 | 0.0 | 0.0% |
| State System of Higher Education | 453.1 | 468.1 | 15.0 | 3.3% |
| Thaddeus Stevens College of Technology | 14.3 | 14.3 | 0.0 | 0.0% |
| PA Higher Education Assistance Agency | 321.8 | 321.3 | (0.5) | (0.2%) |
| Environmental Protection | 146.4 | 154.6 | 8.1 | 5.6% |
| General Services | 116.8 | 120.6 | 3.8 | 3.2% |
| Health | 0.0 | 0.0 | 0.0 | |
| Health and Human Services | 12,342.0 | 12,563.2 | 221.2 | 1.8% |
| Insurance | 0.0 | 7.0 | 7.0 | |
| Labor and Industry | 69.1 | 79.8 | 10.7 | 15.5% |
| Military and Veterans Affairs | 142.2 | 153.7 | 11.6 | 8.1% |
| Revenue | 183.6 | 186.3 | 2.7 | 1.5% |
| State | 10.3 | 10.4 | 0.1 | 1.3% |
| Transportation | 1.6 | 1.6 | (0.0) | (0.4%) |
| State Police | 251.7 | 260.5 | 8.8 | 3.5% |
| Civil Service Commission | 0.0 | 0.0 | 0.0 | 0.0% |
| Emergency Management and Homeland Sec. | 30.9 | 15.9 | (15.0) | (48.5%) |
| Historical and Museum Commission | 20.6 | 21.3 | 0.6 | 3.1% |
| Infrastructure Investment Authority | 0.0 | 0.0 | 0.0 | |
| State Environmental Hearing Board | 2.4 | 2.5 | 0.1 | 5.4% |
| eHealth Partnership Authority | 0.0 | 0.0 | 0.0 | |
| Health Care Cost Containment Council | 2.8 | 3.4 | 0.6 | 21.9% |
| State Ethics Commission | 2.6 | 2.7 | 0.0 | 0.8% |
| Judiciary | 355.5 | 355.5 | 0.0 | 0.0% |
| Senate | 113.6 | 113.6 | 0.0 | 0.0% |
| House of Representatives | 211.6 | 211.6 | 0.0 | 0.0% |
| Government Support Agencies | 55.9 | 55.9 | 0.0 | 0.0% |
| | | | | |
| General Fund - State Total | 31,997.5 | 32,987.3 | 989.8 | 3.1% |