

Summary of the Bipartisan 2016/17 House Budget Proposal (SB 1073, PN2009)

The House Appropriations Committee amended Senate Bill 1073 with a General Fund spending plan for 2016/17 and approved it, June 27, 2016, on a 36-1 vote. The committee added a technical amendment to the legislation and reported the budget proposal to the House floor, June 28. The House adopted the spending plan later in the day, 132-68. And, one day later, the Senate amended SB 1073 and reduced the 2016/17 General Fund by \$20 million to \$31.53 billion.

Senate Bill 1073, as it currently is written, reflects a strong bipartisan compromise. At the same time, the legislation reflects a cost-to-carry budget with some exceptions, mainly for education. Most proposed increases would largely reflect bills that Pennsylvania must pay – like debt service, corrections, federally mandated costs, and payroll and benefits – to keep agencies running at current service levels.

New revenue sources will be necessary to close the budget gap, and we are waiting for revised revenue estimates for the year to reach a final conclusion. The budget bill continues to rely on one-time revenue sources or expenditure offsets to balance. When other bills that are part of the budget package are finalized, a more complete analysis of gap closers will be available.

Of special note is how the legislature is making significant, required pension payments to the Public School Employees' and the State Employees' retirement systems.

A large portion of the pension payments drive down the unfunded liabilities (pension debt) for PSERS and SERS. We often argue that only the payment that supports today's classrooms should be counted as funds that support education. Republicans often try to count all of the pension payments to inflate the commonwealth's total education spend.

Currently, SB 1073 appropriates \$31.53 billion for 2016/17, which would be an increase of \$1.4 billion, or 4.7 percent, over 2015/16 (including \$103.3 million in supplemental appropriations). Total General Fund appropriations in this bill are \$1.2 billion, or 3.8 percent, less than the proposed expenditures contained in the governor's executive budget, which was presented in February 2016.

This analysis includes the acronym, "GGO," which stands for general government operations and represents budgeted costs for personnel, fixed costs, and operating expenses.

Education

K-12

- SB 1073 would provide \$200 million more for basic education as compared to 2015/16. It would also include \$20 million more for special education, an additional \$25 million for Pre-K Counts, \$5 million more for Head Start supplemental assistance, and \$10.4 million more for Early Intervention.
- The 2016/17 basic education total of \$6.15 billion is \$164.6 million less than 2010/11.
- While we are pleased progress is being made towards restoring cuts to basic education made by the prior administration, more work remains to be done. Contrary to Republican claims, proposed funding for basic education in 2016/17 is still less than funds for basic education in 2010/11.

- When Republicans say the basic education subsidy for 2016/17 is higher than the 2010/11 one (including federal stimulus funds), they are neglecting to count all of the basic education-related appropriations (\$6.3 billion) that were eliminated in 2011/12, including: the basic education subsidy, accountability/Ready to Learn Block Grants, reimbursement of charter schools, education assistance program, and school improvement grants.
- The traditional appropriation for PlanCon, the commonwealth’s reimbursement vehicle for school construction and renovation, would not be funded for the second straight year under the current printer’s number for SB1073. Act 25 of 2016 authorizes the Commonwealth Financing Authority to issue up to \$2.5 billion in bonds for school construction projects. CFA did not issue any PlanCon bonds before the end of 2015/16 but it is expected to go to market in the first quarter of 2016/17.
 - Initial bond revenue will be used to catch up school districts on missed 2015/16 payments, fulfill 2016/17 obligations and, to the extent possible, begin reducing reimbursement backlogs. The debt service on the bonds will come from a separate account outside the General Fund.
 - The PlanCon appropriation is listed as “Authority Rental and Sinking Fund Requirements.”
 - PlanCon was last funded from the General Fund at \$306.2 million in 2014/15.
- Additionally, SB1073 would underfund school districts by an estimated \$44 million in 2016/17 by effectively pushing out one month’s worth of School Employees Social Security payments. The 2015/16 budget shorted school districts \$87.4 million in required social security payments by creating a two-month lag in the state reimbursements to them. The two delayed 2015/16 payments would be picked up in 2016/17, necessitating a significant increase in the School Employees Social Security appropriation. However, the increase in 2016/17 is only \$55.1 million, or 12.6 percent, instead of the true increase amount of \$99.1 million, or 22.7 percent.
 - Beginning in 2016/17, school districts would be reimbursed quarterly instead of monthly for social security payments. This change, expected to be made a part of the 2016/17 fiscal or school code, pushes one quarter (or three months) of the state’s social security reimbursement payments out of 2016/17. The three-month delay in 2016/17, coupled with the two months of payments owed for 2015/16, results in school districts being underfunded one-month’s payment, or about \$44 million, in 2016/17.

Higher Education

- SB 1073 would provide a 2.5 percent increase for institutions of higher education, including community colleges, the state-related universities, the State System of Higher Education, Thaddeus Stevens College of Technology and institutional assistance grants for private colleges and universities.
- The bill also looks to deliver a 2.5 percent increase in the appropriation for PHEAA grants to students, as well as to provide increases for the Bond-Hill Scholarships (\$163,000) and the Cheyney Keystone Academy (\$288,000).

Pensions

- For the first time in 15 years, the budget proposal would provide the actuarially calculated annual required contribution, or ARC, to the Public School Employees’ Retirement System. This step not only reflects the General Assembly’s serious concern for properly funding this system, but the ARC commitment sends a strong message to the credit markets that the commonwealth pays its bills.
- The total payment made to the PSERS trust fund will be \$2.06 billion, which is \$345 million, or 20 percent, more than the 2015/16 appropriation of \$1.72 billion.

- A large portion of the pension payments drive down the unfunded liabilities (pension debt) for PSERS and SERS. We often argue that only the payment that supports today's classrooms should be counted as funds that support education. Republicans often try to count all of the pension payments to inflate the commonwealth's total education spend.
- The pension payment reflects three components:
 - Cost to provide benefits (\$571 million or 28 percent of the payment);
 - Cost to pay down the unfunded liability (\$1.44 billion or 70 percent of the payment); and
 - Cost of the health care premium assistance to qualifying educators (\$57 million).
- The total payment made to the SERS trust fund is estimated to be \$600 million in General Funds under the governor's jurisdiction, which is roughly \$107 million, or 22 percent, more than the 2015/16 appropriation of \$493 million.
 - The budget bill would provide the state's share of the legally required employer contribution payment to the State Employees' Retirement System. It is anticipated that the full ARC to SERS would be made in 2017/18.
 - The pension payment reflects three components:
 - Cost to provide benefits (\$90 million or 15 percent of the payment); and
 - Cost to pay down the unfunded liability (\$510 million or 85 percent of the payment).

Public Employees Retirement Commission (PERC)

- Senate Bill 1227 (PN 1990) dissolves PERC and reassigns its duties to the Independent Fiscal Office and the Department of the Auditor General. Funding is provided to each entity to carry out PERC's previous responsibilities.
 - The auditor general would receive a \$337,000 appropriation and three full-time employees to perform "Act 205" duties, which include monitoring and enforcing compliance with actuarial funding standards for the Municipal Pension Aid program (which the Department of the Auditor General already administers). The municipal aid calculation will be performed by the governor's budget office.
 - The Independent Fiscal Office would receive an additional \$320,000 to carry out its "Act 66" duties to review all proposed legislation applicable to public employee pension systems and to attach actuarial notes to the proposed legislation within 20 legislative days by contracting with outside firms to perform those actuarial analyses.

Pension Charter School Double-Dip Eliminated

- As written, SB 1073 assumes \$74 million in savings from the elimination of the state's duplicative retirement contribution to charter and cyber-charter schools. Note that the pension "double-dip" was only temporarily eliminated in 2015/16. The provision must again be made for the 2016/17 budget or made permanent for the savings to be realized.

Health & Human Services

Human Services

- The budget bill includes \$15 million for the governor's opioid treatment initiative.

- SB 1073 would also provide community services to additional individuals with intellectual disabilities who are on the waiting list, and for graduates from special education.
- Under the proposed legislation, home- and community-based services would be delivered to more elderly Pennsylvanians.
- The budget would also work to provide home- and community-based services to more adults with physical disabilities.
- DHS delayed the implementation of long-term care managed care (Community HealthChoices) until July 2017. This budget proposal reflects that six-month postponement.
- The proposed budget for Medical Assistance anticipates average monthly caseload of 2.8 million, including more than 600,000 Pennsylvanians who are now covered under Medicaid Expansion. SB 1073 looks to increase the reimbursement rates for pediatric shift nursing services beginning in 2016/17, delaying the increase that was included in the final 2015/16 budget. The proposed budget does not include specific rate increases for other providers, including nursing facilities.
- The budget bill would also level-fund hospital payments for burn centers, OB/neonatal services and trauma centers. The proposed funding increase for critical access hospitals reflects the addition of two more hospitals that meet the federal criteria for critical access.
- The county child welfare appropriation in SB 1073 reflects 12 months of funding and includes an additional \$25.6 million for increases in counties' needs-based budgets.
- The budget bill would not restore any of the funding cuts made in 2012/13 to county human services programs.

Health

- The 2016/17 budget proposal would increase funding for the Department of Health by 2.9 percent to \$215.1 million, or \$6.1 million more than 2015/16 levels. Three major programs in line for potential increases include: quality assurance (3.7 percent), vital statistics (16.7 percent), and state laboratories (14.7 percent).
- The budget would fully fund the "Achieving Better Care by Monitoring All Prescriptions" (ABC-MAP) prescription drug registry at \$3.15 million, which aligns with Gov. Tom Wolf's original 2016/17 proposal. If approved, the appropriation would increase by \$1 million (46.9 percent), annualizing administration costs as program implementation continues.
- SB 1073 includes a new appropriation to support start-up and early implementation costs associated with the statewide medical marijuana program, as enacted in Act 16 of 2016. This \$3 million appropriation consists of a one-time loan from the General Fund that is to be paid back within 10 years.
- The budget proposal would work to restore funding to the various disease- and research-specific programs equal to 2015/16 levels. If approved, diabetes programs, regional cancer institutes, adult cystic fibrosis, hemophilia, sickle cell, regional poison control centers, trauma prevention, epilepsy support services, bio-technology research, Tourette syndrome, and ALS support services would benefit.

Support for Pennsylvanians with Disabilities / Labor and Industry

- The 2016/17 budget proposal looks to increase funding for the Office of Vocational Rehabilitation by **\$2 million to help Pennsylvanians with disabilities gain employment**. This investment of state resources would also leverage additional federal matching funds.
- Combined with a \$5 million increase in the 2015/16 budget, OVR would especially be better able to help high school students with disabilities get work experience as they prepare to transition to life after school and live independently in their communities.

Department of Drug & Alcohol Programs

- The 2016/17 budget would increase funding to the Department of Drug and Alcohol Programs by \$1 million, or 2.6 percent. This amount includes an additional \$253,000 for the agency's GGO.
- Additionally, the budget would provide \$750,000 (1.7 percent) more for Assistance to Drug and Alcohol Programs. The increase would be on top of the \$3.5 million increase in 2015/16, with funds directed to single county authorities that provide targeted prevention and treatment opportunities in communities throughout the commonwealth.

Lottery Fund

- Lottery funds for senior programs in the Department of Aging's proposed 2016/17 budget total \$564.5 million, which would be an increase of \$43 million over 2015/16.
- PENNCARE funding would increase by \$11 million to \$325 million, with the additional funds used, largely, to provide attendant care services to additional seniors.
- PACE funding increases \$30 million to \$205 million, under SB 1073.
- Grants for senior centers would be maintained at \$2 million.
- Lottery funds used to support Medicaid programs in the Department of Human Services is proposed at \$308 million, which represents a decrease of \$1.6 million compared to 2015/16 and a decrease of \$193.5 million compared to the record amount used in the last Corbett budget.

Law Enforcement, Public Safety & Justice

Corrections

- The appropriation for the Department of Corrections is 6.8 percent more than 2015/16 and the increase would cover higher personnel costs brought by an arbitration agreement with the State Corrections Officers Association. That new pact complies with Department of Justice recommendations for staffing, improvements to mental healthcare and use of solitary confinement following settlement of a lawsuit that the Disability Rights Network of PA filed in 2013.

Probation and Parole

- **The Pennsylvania Board of Probation and Parole remains a distinct entity in the budget proposal. However, discussions on a proposed merger with the Department of Corrections continue.** With SB 1073, the board would be given a 5.3 percent increase to its appropriations.
- The appropriation for Improvement of Adult Probation Services would remain at \$16.2 million, with no increase over the prior year. The board has requested a \$3.3 million increase to restore funding to 2008

levels for this appropriation which supports county adult probation programs. Counties are responsible for more than 85 percent of all cases supervised on probation, parole and intermediate punishment.

State Police

- SB 1073 would provide a 5.8 percent increase for the Pennsylvania State Police.
- With the additional support, the agency would be able to deliver **three new cadet classes in 2016/17**. The cadet classes provide a steady pipeline of new troopers to maintain public safety throughout the commonwealth and reduce the need for future spending on overtime caused by staffing shortfalls.

Judiciary

- Senate Bill 1073 looks to increase funding for the judiciary by \$13.1 million or 3.8 percent, including:
 - Judicial Conduct Board, \$226,000
 - Philadelphia courts, \$472,000
 - Court of common pleas, \$10.79 million
 - Supreme Court, \$4.8 million
 - Community courts/magisterial district judges, \$3.1 million
 - Commonwealth Court, \$3 million
 - Superior Court, \$2.6 million

Environment

Department of Environmental Protection

- DEP would receive \$147.8 million in the 2016/17 General Fund budget, representing an increase of \$5.1 million, or 3.6 percent, over 2015/16.
- Modest increases to the agency's major personnel appropriations could also happen, if approved, including:
 - General Government Operations – \$13.93 million, an increase of \$555,000, or 4.1 percent, over 2015/16;
 - Environmental program management – \$30 million, an increase of \$1.7 million, or 6 percent; and
 - Environmental protection operations – \$89.06 million, an increase of \$1.89 million, or 2.2 percent.
- The 2016/17 budget proposal would also expand the scope of the West Nile Virus Control appropriation to include payment for efforts to combat the spread of the Zika virus, which is spread to people via infected mosquitos. The budget looks to allocate \$5.3 million for this appropriation, representing a \$1.4 million, or 36 percent, increase.
- The State Environmental Hearing Board would receive \$2.49 million in 2016/17, equaling \$111,000, or 4.7 percent, more than its 2015/16 appropriation.

Conservation and Natural Resources

- This budget proposal would provide \$363.2 million in total funding for DCNR, which would be a net increase of \$18 million, or 5 percent, when all funding sources are counted based on current estimates. Of this total, DCNR’s General Fund budget would be \$106.9 million (\$44.7 million more than 2015/16). The increase is happening because DCNR’s operating funds continue the transition to the General Fund from the Oil and Gas Lease Fund. DCNR would receive \$50 million from the Oil and Gas Lease Fund in 2016/17, or \$35.5 million (42 percent) less than 2015/16.
- The increases in DCNR’s General Fund appropriations as a result of these transfers is as follows:
 - General Government Operations – \$19.37 million, which would be \$7 million, or 57.4 percent, more than 2015/16;
 - State parks – \$54.4 million, which would be \$21.1 million, or 63.5 percent, higher than 2015/16; and
 - State forests – \$27.1 million, which would be an increase of \$15.9 million, or 142 percent, over 2015/16.
- The budget proposal also would deliver a slight increase for payments in lieu of taxes on forest lands, increasing the appropriation to \$2.6 million, which is needed for tax payments for newly acquired land.
- SB 1073 would also restore and increase funding for the “heritage and other parks” appropriation to \$2.87 million. If approved, that would be an increase of \$473,000, or 20 percent, over 2015/16.

Row Offices

Lieutenant Governor

- The 2016/17 budget proposal would increase funding for the Lieutenant Governor and the Board of Pardons by a combined 8.1 percent.

Attorney General

- SB 1073 would slightly reduce funding for the Office of the Attorney General by 0.1 percent. However, it seeks an additional \$586,000 for tobacco settlement enforcement.
- The budget proposal would also increase the appropriations for public safety programs, like drug strike task forces and child predator interception units.

Auditor General

- Funding for the auditor general would increase 4.1 percent under SB 1073. Part of the proposed increase includes \$3 million for an IT modernization effort that would streamline the operations of the auditor general’s office.
- The suggested increase in its GGO appropriation includes funding for the auditor general to assume the responsibilities of the Public Employee Retirement Commission, or PERC.

Treasury

- The budget bill would slightly reduce funding for the PA Treasury Department by 1.1 percent. However, this reduction comes from a \$16.1 million drop in general obligation debt service for 2016/17.

Other Areas

Department of Military and Veterans Affairs

- The 2016/17 budget proposal would increase funding for the Department of Military and Veterans Affairs by \$16.6 million, or 12.8 percent. The increase is primarily a result of an additional \$11.6 million that has been proposed in the department's appropriation for veterans' homes.
- SB 1073 would also deliver an additional \$3 million for educational assistance programs for veterans.

Department of State

- The House-approved budget would slightly increase the GGO for the Department of State by 3.6 percent. Should SB 1073 be approved, however, the agency's total funding for 2016/17 would decrease by 4.5 percent.

Agriculture

- The Department of Agriculture would receive \$140.5 million in the 2016/17 General Fund budget, representing an increase of \$3.7 million, or 2.7 percent, over 2015/16.
- Under this budget proposal, Ag's GGO appropriation would increase \$1.7 million, or 6.3 percent, to \$29.37 million.
- This budget proposal also looks to allocate \$2 million to a new state appropriation for avian influenza preparedness and response.
- SB 1073 would provide \$1.2 million, or 3 percent, more for the Agricultural College Land Scrip Fund, meaning the college's total appropriation would hit \$51.8 million. Penn State University would use the money for its agricultural operations.
- The budget proposal would also increase the appropriation for the State Food Purchase Program to \$19.1 million, which represents a \$750,000, or 4 percent, increase over 2015/16.
- SB 1073 would add \$735,000 to University of Pennsylvania's veterinary school appropriation. The 3 percent increase would give the Philadelphia college \$30.1 million. And,
- The budget proposal would also provide slight increases for various grant appropriations within the department's budget.

Department of General Services

- DGS would receive less under the budget bill. As it stands, the department is slated to receive \$119.3 million in 2016/17, which is \$5.7 million, or 5 percent, less than 2015/16. DGS' GGO appropriation would

also fall. Currently, SB 1073 would deliver \$53.5 million, which is \$9.7 million, or 15.4 percent, less than 2015/16.

- The proposed reduction in DGS' GGO is the result of the department's public works modernization effort, which includes using bond funds to cover the costs of staff and operations during capital budget projects. Many other states are following this model.
- The budget proposal also includes \$24.5 million for rental and municipal charges, representing a potential decrease of \$930,000, or 3.7 percent, from 2015/16, due to a decline in lease costs.

Emergency Management Agency

- PEMA would receive \$13.63 million in the 2016/17 General Fund budget, representing a decrease of \$2.7 million, or 16 percent, over 2015/16. Its GGO would increase, however, by \$635,000, or 6.2 percent, to \$10.93 million.
- The State Fire Commissioner, under SB 1073, would receive \$2.29 million, or 6.6 percent (\$141,000), more than 2015/16.
- In this budget proposal, funding for Local Municipal Emergency Relief would hold at \$3 million. Of note, however, is the anticipated appropriation has been moved from PEMA's budget and placed under the Department of Community and Economic Development's financial oversight.
- The budget proposal would also eliminate \$500,000 for disaster relief.

Historical and Museum Commission

- The PA Historical and Museum Commission would receive \$21.9 million in the 2016/17 General Fund budget, representing an increase of \$781,000, or 3.7 percent, over 2015/16.

Department of Community and Economic Development

- The 2016/17 budget would increase funding for several important programs and initiatives within DCED. Chief among these would be the reestablishment of an independent appropriation for military base realignment and closure (\$798,000). Funding for this program had been consolidated under the agency's GGO appropriation by the prior administration, which significantly impaired the flexibility and awareness of the commonwealth's efforts to protect against closure actions by the federal government.
- The budget would remove the transfer for the Commonwealth Financing Authority (CFA) – totaling \$95.3 million – from General Fund expenditures in DCED. In lieu of a General Fund appropriation, the principal and interest payments for the CFA will be paid through a newly-established restricted revenue account.
- The 2016/17 budget proposed to shift the portion of the Capitol fire services grant for Harrisburg, which is now housed in the Center for Local Government Services, to DGS. This move would correlate to a \$4.5 million reduction in this appropriation, and result in the entire \$5 million grant being housed within DGS.

- If approved, SB 1073 would transfer the local municipal emergency relief program from the Pennsylvania Emergency Management Agency to DCED to better align with the agency's experience in managing and administering similar grant programs.
- The 2016/17 budget would contain an additional \$1 million for early intervention for distressed municipalities, increasing this appropriation by 56 percent over 2015/16. The additional funding would help communities facing financial hardships through the Early Intervention Program, which supports financial planning and blight remediation programs.
- SB 1073 would retain the regional events security and support appropriation, introduced last year, and double its appropriation to \$10 million. The funds would be split evenly to pay for operational costs associated with last year's papal visit and the upcoming Democratic National Convention in Philadelphia.
- If approved, the budget would also provide no additional funding above 2015/16 levels for a variety of programs, including Pennsylvania First (WEDNetPA, included), and Partnerships for Regional Economic Performance (industrial resource centers, local development districts, small business development centers, and industrial development assistance).