2017/18

BUDGET BRIEFING

Report on Key Issues

HOUSE APPROPRIATIONS COMMITTEE (D)

JOE MARKOSEK, DEMOCRATIC CHAIRMAN

2017/18 Budget At-A-Glance

Updated: 7/14/2017 12:41 PM

The House passed the General Appropriations bill (House Bill 218, PN 2196), the primary spending plan for the commonwealth, but a lot of work remains before we can say we are finished with the 2017/18 budget. Much of the accompanying legislation required to fully implement the budget is still pending, most notably a legislative plan to resolve the commonwealth's chronic budget gap. We respectfully ask that the solid GOP majorities in the General Assembly join in a productive conversation about how to resolve the fiscal crisis at hand with real recurring revenue.

Republicans have written and leveraged passage of budgets for the past six years that roll forward chronic budget imbalances. We hope 2017/18 is an exception. Republicans are pushing for a solution that significantly depends on debt just to pay to keep the lights on, but we need a plan to reasonably secure the long-term future of education, our most vulnerable residents, and other programs core to its mission and economic vitality.

For far too long, Republicans have insisted on budget balancing gimmicks that have forced Pennsylvania to postpone billions of dollars owed to vendors and school districts. Time and again, the commonwealth has diverted money from dedicated funds to "balance" our central funding source, the General Fund. Doing so has threatened the long-term viability of key programs that these dedicated funds support, like senior programs in the Lottery Fund, transportation programs in the Motor License Fund, and environmental programs across other funds, including the protection of safe drinking water.

Republicans also have insisted on over-inflated revenue estimates, understated expenditure estimates, and moving money around on paper to give the appearance of a constitutionally required balanced budget.

Pennsylvania is fast approaching a tipping point where the slightest catastrophe could push the state into financial disaster. Governing by crisis only invites trouble, incurs extra expenses and invites hasty, ill-constructed decisions.

This document provides a quick overview of the highlights of the 2017/18 state budget. The House Appropriations Committee (D) will continue to review additional budget related legislation as it moves through the process, updating this document as new information becomes available and posting those updates online on the [HACD Website](#).

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Deficit - UPDATED

Q: Is the budget constitutionally balanced? Updated

Not yet. For the budget year, 2017/18, total General Fund expenditures in Act 1A exceed projected General Fund revenue estimates under current law by about $1.1 billion. Using prior year lapses still leaves the 2017/18 budget $936 million below revenue estimates.

Additionally, 2016/17 ended with a $1.5 billion deficit due to underperforming revenues and several sources used to balance the budget that never materialized (i.e. expanded gaming and a loan from the Joint Underwriters Association).

Total revenue needed to balance the combined 2016/17 and 2017/18 deficit is about $2.5 billion.

Q: Is the structural deficit resolved?
No. As we watch legislative developments, remember that a budget may be constitutionally balanced one year, but fails to address the structural deficit.

The structural deficit is an ingrained, chronic imbalance that annually reoccurs. For many years, revenue has not grown at a pace healthy enough to pay for increases in basic services. Instead of fixing the problem by providing for adequate and healthy recurring revenue sources, Pennsylvania has repeatedly balanced budgets using one-time revenue and other gimmicks that just get the state through one more year.

While we have not yet seen language, the GOP will, purportedly, insist on another short-term measure for the budget year – securitization of the Tobacco Settlement Fund – which, essentially, is an issuance of debt to offset operating expenses. The governor, on the other hand, is asking for a serious commitment to recurring revenue sources like a severance tax on natural gas. We will report on progress toward addressing the structural deficit as details emerge.

Total Spending

Q: By how much do General Fund expenditures increase?
Unfortunately, this is not a straightforward answer and requires additional analysis. The General Fund budget assumes a $398 million increase in spending (supplemental appropriations) for the year just ending and assumes a $54 million increase for the budget year. An accounting maneuver moves a large portion of spending from 2017/18 back to 2016/17 in order to make the dollar increase for the budget year (2017/18) “look” smaller.

Taxes

Q: How are taxpayers affected by this budget?
Act 1A is the General Appropriation Act and does not address revenue options. Revenue sources required to balance this proposal are currently unknown.

Debt

Q: How does the 2017/18 budget bill use debt?
Act 1A, as amended, does not include the Farm Show lease-back transaction, which the governor proposed in the executive budget. Similarly, it does not rely on the governor’s proposed borrowing to support certain grant programs and indirectly reduce General Fund spending for DCNR. The General Fund will pay for these costs as normal.

It is unclear what the Republican majority intends to borrow through methods like securitizing the Tobacco Settlement Fund to balance the budget.

Rainy Day Fund

Q: What is the health of the Rainy Day Fund?
Terrible. Ending 2016/17 with a negative balance means there is no statutorily required transfer to the Rainy Day Fund. With a balance of roughly $250,000, the Rainy Day Fund has enough money in it to run the state for about five minutes. Meanwhile, all other states have a combined Rainy Day Fund balance of $52 billion.

Education

K-12

Q: **How does the 2017/18 budget impact the big three: basic, special, and early education?**

- $100 million increase for basic education funding.
  - The total distributed through the fair funding formula would be $452 million or 7.5 percent of PA's $6 billion appropriation for basic education.
  - Funding by district is available on the HACD website.
- $25 million increase in special education funding.
- $30 million increase for early education funding ($25 million for Pre-K Counts and $5 million for Head Start Supplemental Assistance).
  - The governor's budget called for a $75 million increase.
  - The House-passed budget (HB218, PN1236) included a $25 million increase.
- Flat-funding for the Ready-to-Learn Block Grant.

Q: **Is the $50 million reduction to pupil transportation included?**
No. Pupil transportation is flat funded.

Q: **Any education policy changes as a part of this budget?**
We do not know, yet. Any policy changes would appear in the accompanying fiscal or education codes.

Higher Education

Q: How did the budget treat higher education?
Mixed results. The proposal provides 2 percent increases for the Pennsylvania State System of Higher Education, a 7.5 percent increase for Thaddeus Stevens College of Technology, and a 10 percent increase for the Pennsylvania College of Technology.

Community colleges and state-related universities (Penn State, Pitt, Temple and Lincoln) are flat funded. However, the non-preferred appropriations bills for our state-related universities have not been passed by the General Assembly yet.

Institutional assistance grants for students attending private colleges and universities are restored. And, PHEAA grants are, essentially, flat funded.

Pensions

Q: Is the state making its annual Actuarially Required Contribution, or ARC, for both systems?
For PSERS, ACT 1A reduces the commonwealth's state-share appropriation included in the governor's budget request by $20 million. The Senate-adopted amendment reduces this appropriation by an additional $20 million. These reductions could place the commonwealth at risk of not making its ARC.

Q: Does the Republican budget include start-up funding for the new pension plan?

- Act 5 of 2017 requires new employees to select one of three new retirement plan design options, effective Jan. 1, 2019, for SERS and July 1, 2019, for PSERS.
- Both systems say start-up funding for personnel and operations is needed to implement the provisions of the new law. The Internal Revenue Code, however, prohibits funding for the defined contribution (DC) components of the new plan design to come from the systems' trust funds. But funding from the defined benefit (DB) components is permissible.
- The Governor's Budget Office says the budget bill includes funding for the new pension plan from unexpended 2016/17 funds. Start-up costs for the DC components of the plan for PSERS is $6.8 million, $5.8 million for SERS.

- The adequacy of funding the DC start-up costs and the current year funding being carried over to make the 2017/18 ARC payment is being further evaluated.
- Additional start-up funding for the DB components for PSERS and SERS is included in each of the system-specific housekeeping bills.

Health and Human Services Agency Consolidation

Q. Will state agencies be consolidated into a new Department of Health and Human Services as proposed by the governor?

The budget bill maintains separate funding for the departments of Human Services, Health, Aging, and Drug and Alcohol Programs. However, language in Section 2112 of the bill provides for the transfer of state and federal appropriations to a newly consolidated agency if legislation is enacted during the 2017/18 fiscal year to merge or consolidate any combination of the four agencies.

Tobacco Settlement Fund

Q. How much Tobacco Settlement Fund revenue is budgeted for programs and what happened to the governor's bonding proposal for the CURE program?

Two appropriations are included in the Senate budget bill from the Tobacco Settlement Fund: "Medical Assistance long term care" in the Department of Human Services and "Life Sciences Greenhouses" in DCED. Tobacco funding for other health-related programs (such as hospital uncompensated care payments, Medical Assistance for workers with disabilities, and CURE health research) is determined by a statutory formula in the Fiscal Code that allocates tobacco money to programs. We will not know what these allocations are until we see Fiscal Code language.

Tobacco Settlement Fund appropriations in the bill total $118.7 million.

- $3 million is for the "Life Sciences Greenhouses," and
- $115.7 million is for Medical Assistance long term care. This is less than the governor's executive budget, which assumed CURE funding would be bonded and most of the tobacco funds allocated for CURE research program would then be redirected to long term care.

Lottery Fund

Q. How much is budgeted for lottery-funded senior programs?

The budget bill includes Lottery Fund appropriations for programs in the departments of Aging and Human Services. Lottery funds used to support transit programs and the property/tax rent rebate program are made by executive authorization and do not require an annual appropriation.

The Lottery appropriations in the Department of Aging total $495.3 million, which is $6.5 million more than the governor's proposal and reflects his revised request for PENNCARE to support higher projected costs for attendant care services to seniors. Lottery revenue appropriated for Aging programs include:

- $336 million for PENNCARE,
- $125 million for transfer to the Pharmaceutical Assistance Fund, and
- $2 million for grants to senior centers, the same as the governor's proposal.

Lottery appropriations in the Department of Human Services total $308.2 million, the same as the governor's request. These appropriated Lottery funds reduce, dollar-for-dollar, the General Fund state appropriation required to support these Medicaid programs:

- $184.1 million for Medical Assistance long-term care, which funds nursing facilities,
- $120.7 million for home and community based services, which funds the aging waiver program, and

- $3.5 million for Medical Assistance transportation.

Q. What happened to the pharmacy dispensing fee in the PACE program?
Because the Lottery Fund appropriation for the Pharmaceutical Assistance Fund is the same as the governor's request, which was predicated on savings associated with reducing the PACE dispensing fee, it appears that the Senate-approved budget also assumes a fee reduction. However, because a statutory change is required to reduce the PACE dispensing fee, we will not know what is proposed until we see legislation.

Health and Human Services

Medical Assistance - UPDATED

Q. Why was state funding reduced for the Medical Assistance managed care program?
The reduction to the state appropriation for Medical Assistance capitation (which funds the department's managed care program) is largely due to the availability of other revenue sources to pay for 2017/18 expenditures. The state appropriation decrease reflects an increase in the managed care organization assessment fee (effective July 1, 2017) and higher-than-anticipated collections for the final managed care gross receipt tax that was due March 15, 2017.

Q. Does the 2017/18 budget restore House Republican cuts to hospitals?
It restores support for trauma centers, hospital-based burn centers and obstetric/neonatal services. It also maintains appropriations at 2016/17 levels, as requested by Gov. Wolf in his proposed budget.

Q. What happened to funding for nursing facilities?
Nursing facilities funding reflects recent trends of lower nursing home bed utilization and lower costs than projected in the governor's budget. Act 1A shifts $85 million of 2017/18 state expenditures to 2016/17 and is reflected in the 2016/17 and 2017/18 appropriations for Medical Assistance long-term care. The new budget does fund any rate increases for nursing facilities. Whether or not ACT 1A funds special payments to facilities will be revealed in the Fiscal Code.

Q. How does the 2017/18 budget bill fund senior home- and community-based services?
The budget supports the governor's revised request for these two appropriations. Home and community-based services funds the aging waiver program, and long term care managed care funds the LIFE program. The appropriations reflect the recent cost and use trends and add the funding requested by the governor to expand the programs so more seniors will receive services in 2017/18.

- Home- and community-based services would provide aging waiver services to 1,788 more seniors.
- Long term care managed care would serve an additional 600 seniors and provide LIFE program services in 10 additional counties.

The budget funds the governor's Community HealthChoices initiative to increase opportunities, beginning 2018, for seniors to remain in their homes.

Q. How does the budget fund community-based services for adults with physical disabilities?
The Senate proposal supports the governor's revised request for the two state appropriations. The appropriations reflect recent cost and use trends and adds the funding requested by the governor to expand programs so more people will receive services in 2017/18.

- Services to persons with disabilities would serve an additional 1,812 adults.
- Attendant care would serve an additional 840 adults.

Updated

Q. Is there funding to reduce the ID waiting list and increase provider rates like the governor sought?

The budget supports the state appropriation requested by the governor for the intellectual disabilities community waiver program for 2017/18 ($1.527 billion), and the governor's requested supplemental appropriation increase for 2016/17 ($66 billion). The appropriated funds would cover costs for the current program and pay for the following initiatives in 2017/18:

- Services for 1,000 individuals who are now on the emergency waiting list,
- Services for 820 students graduating from special education,
- Services for 40 individuals who currently reside in state centers, and
- Rate increases for service providers.

The budget includes the $230,000 requested by the governor in the intellectual disability community base program appropriation to provide targeted services management (for intake and eligibility) for 455 waiting-list individuals who have not been enrolled in the waiver program.

Q. What about funding for autism intervention and services?

The Senate budget supports the funding requested by Gov. Wolf, including support for the following:

- Autism waiver services for 50 additional adults with autism spectrum disorders,
- Targeted services management for 1,545 Medicaid-eligible adults with autism who are on the interest list and receive no case management or other services, and
- Two bio-behavioral units (one in western Pennsylvania, one in eastern Pennsylvania) to help individuals with ID and/or autism who have extreme and complex behavioral health problems.

Q. Are medical schools funded?

Medical schools are funded through the "Medical Assistance academic medical centers" and "Medical Assistance-physician practice plans" appropriations.

- The budget appropriates $24.681 million for "Medical Assistance - academic medical centers" in 2017/18, which is $7.25 million above the governor's request and $3.5 million more than the 2016/17 appropriation.

- $10.071 million is appropriated for "Medical Assistance - physician practice plans" in 2017/18, which is $3.5 million above the governor's request and the same as 2016/17.

Human Services

Q. Did the Senate restore House Republican funding cuts for child care?

The budget uses a variety of revenue sources to restore the cuts that the House Republicans made to child care services (which funds subsidized child care for low-income families) and child care assistance (which funds subsidized child care for TANF and former TANF families). The $10 million requested by Governor Wolf for child care services so an additional 1,800 children from the low-income waiting list will receive services in 2017/18 is also included.

- The budget partially restores the $50.2 million cut for child care services by adding $35.2 million back to the state appropriation and then makes up the difference by adding $15 million to the federal Child Care Development Fund Block Grant appropriation.

- The budget uses prior year funds to backfill the $12.7 million cut to the state appropriation for child care assistance.

Q. What happened to the governor's home visitation initiative?

The budget partially restores the governor's $9 million initiative, which House Republicans had eliminated. The budget adds $5 million back to the state appropriation for community-based family centers to expand evidence-based home visiting services for pregnant women, infants and young children.

Q. Does the budget restore the House Republican cuts to county human services?
Yes.

Q. What happened to funding for county child welfare?
The budget reduces the 2017/18 state appropriation by $10 million and uses $10 million of unspent prior year funds instead.

Health and Drug & Alcohol Programs - UPDATED

Q: Does the budget bill preserve Gov. Wolf's proposed funding to address the heroin and opioid epidemic in Pennsylvania?
Mostly. ACT 1A includes $74.2 million to address this public health crisis. This is a $10.6 million increase, or 16.7 percent over 2016/17. Part of the increase is an additional $4 million in the *Behavioral Health Services* appropriation to annualize the costs to administer and manage PA's 20 Centers of Excellence.

The budget includes $7.5 million for opioid initiatives in the Commission on Crime and Delinquency's appropriation, which is 56 percent of the governor's $13.4 million request to equip first responders with naloxone and expand drug courts. We do not yet know how funds will be distributed, but they may be specified in the Fiscal Code.

The Office of the Attorney General asked for more funding to hire 19 more narcotics agents and three more deputy attorneys general to combat the opioid epidemic. The budget maintains the Republican cuts, reducing the likelihood of expanded efforts to combat opioids by the AG.

Updated

Funding to Combat Opioid Epidemic Dollar amounts in thousands ($1,000s)	**2016/17 Available**	**2017/18 Exec. Proposal**	**2017/18 HB 218** (as amended)
Grants to Single County Authorities (SCAs)	$ 45,482	$ 44,732	$ 44,732
Centers of Excellence	$ 15,000	$ 19,032	$ 19,032
ABC-MAP Prescription Drug Registry	$ 3,153	$ 3,143	$ 3,023
PCCD Opioid Initiative Grants (First Responders and Drug Court Expansion)	$ -	$ 13,375	$ 7,460
Total	**$ 63,635**	**$ 80,282**	**$ 74,247**

Q: Is funding restored to the disease and research-specific appropriations within the Department of Health that were eliminated or significantly reduced?
Not only are the regular appropriations that are routinely reduced or eliminated within Health restored, but funding for the Chronic Renal Disease Program has been restored to $6.9 million.

Q: Is the funding reduction for State Health Care Centers reduced in line with the governor's proposal to shift physical locations and administration to other program areas?
Yes. The funding is reduced from $23.4 million in 2016/17 to $10.4 million in 2017/18.

Gaming

Q: What are the significant changes to gaming as a result of the budget package?
Still not sure. House Bill 271 would expand gaming on the internet, fantasy sports, airport gaming tablets and video gaming terminals (VGTs) in restaurants and taverns. This bill is still with the Senate, so it is not clear which portions of gaming – and to what extent – may be expanded to balance the budget.

Liquor

Q: Does this budget rely on liquor privatization to balance?

Probably not. No new liquor proposals are being used to generate revenue for the 2017/18 budget. Act 39 of 2016 provided additional consumer convenience and increased revenue. It allows wine sales by restaurant licensees, auctioning off dead licenses, flexible pricing and customer relationship management. The scheduled transfers from the State Stores Fund to the General Fund are part of the revenue estimate. The transfers were $216.4 million in 2016/17 and are expected to be $185.1 million in 2017/18.

Public Safety

Q: Are Corrections and Probation & Parole consolidated into a single agency?

Appropriations to the existing Department of Corrections and Board of Probation and Parole are reflected in the budget as a consolidated Department of Criminal Justice. The new agency is funded at $2.46 billion, which is $104 million, or 4 percent, less than the 2016/17 sum of the two agencies. Closing SCI-Pittsburgh, complement controls, and savings from the merger enabled the savings.

The Senate bills that merged the two agencies – SB522, which shifts powers and duties from PBPP to the new department; and SB523, which brings the Crime Victims Act up to date with consolidation – passed the Senate in late May. Language to consolidate could be added to the administrative code even if SB522 and SB523 do not move forward.

Q: Does this budget include fee revenue from municipalities in exchange for local coverage by Pennsylvania State Police?

No. Despite proposals from all four caucuses and the administration, none have moved forward to become part of the budget. For 2017/18, as in prior years, the General Fund ($252.2 million) and Motor License Fund ($777.5 million) will fund state police, which remains within the fiscal code-mandated limit of MLF spending on PSP ($801.7 million for 2017/18).

Q: What happened to the $71 million Republicans proposed to cut from county courts, treatment programs, probation offices, and victim services?

Counties can breathe a sigh of relief. Appropriations for intermediate punishment, county probation, victim services, and county courts that House Republicans cut in HB218 were restored in the budget to 2016/17 levels. An exception is the fifth and final annual transfer of JRI savings to the Justice Reinvestment Fund, which is not included.

Q: How does this budget affect the state police trooper complement?

Three cadet classes are funded in the 2017/18 budget with an expected output of 304 new troopers. Assuming retirements do not accelerate in 2017/18, the trooper complement will remain stable. At 4,192 enlisted troopers, the complement is currently below the authorized maximum of 4,719 and PSP's recommended "public safety line" (4,500).

Q: Is the Pennsylvania Instant Check System (PICS) adequately funded?

For the second consecutive year the budget zeroes out the General Fund appropriation for gun checks and relies instead on the Firearm Record Check Fund, a restricted receipt account funded by fees on firearms purchases to support the Pennsylvania Instant Check System.

Military & Veterans Affairs

Q: What does this budget mean for Pennsylvania's veterans?
The majority of cuts to the Department of Military and Veterans Affairs is from a $2.8 million reduction to the commonwealth's six veterans' homes.

The governor's Executive Budget sought to close a wing at the Hollidaysburg Veterans Home to generate operational savings. These proposed cuts, even though the DMVA has realized some operational savings through complement control and other measures, may force deeper staff reductions that could affect service.

The budget also sought an increase of $500,000 to fully reimburse veterans' organizations for outreach services directed by Act 66 of 2007. This budget, instead, level-funds that appropriation, meaning outside organizations providing outreach services would need to bear a larger share of the costs or reduce their outreach to veterans.

Transportation

Q: Are there any notable changes for transportation related spending?
No. The budget provides funding for transportation personnel and operations.

Agriculture

Q: Does the budget provide for the Department of Agriculture's various grant appropriations?
The 2017/18 budget includes various agriculture grant appropriations.

Q: What about the University of Pennsylvania Veterinary School?
The budget includes $30.1 million in funding for Penn's veterinary medicine school, which is what it received in 2016/17. The budget also maintains level funding for the university's Center for Infectious Disease.

DCNR

Q: How does the Oil and Gas Lease Fund impact the Department of Conservation and Natural Resources' overall budget?
Absent the transfer of revenue from the Environmental Stewardship Fund, facilitated by the governor's bond initiative, the Oil and Gas Lease Fund provides less to DCNR.

Specifically, the bulk of operating expenses for state parks and state forests operations that were planned to be off-loaded to the Oil and Gas Lease Fund will now be covered in DCNR's General Fund.

Under this budget, the Oil and Gas Lease Fund provides $50 million for DCNR General Operations, and it provides the Act 13 of 2012-authorized transfers to the Environmental Stewardship Fund ($20 million) and the Hazardous Sites Cleanup Fund ($15 million). The fund also covers $7.7 million in expenses for State Parks Operations and $3.5 million for State Forests Operations.

Q: How does this budget impact state parks and state forests operations within DCNR?
As a result of expenses being covered from the Oil and Gas Lease Fund, state parks will see a $4.4 million (8 percent) increase over 2016/17, while state forests will receive a slight cut of $810,000 (3 percent).

Q: Why did the "annual fixed charges" appropriation for forest lands increase in proposed 2017/18 budget?
DCNR's General Fund budget has several appropriations for annual fixed charges, or payments in lieu of taxes to school districts, counties and municipalities for lands acquired by the commonwealth for recreational purposes,

flood control, park lands, and forest lands. The 2016/17 fiscal code bill (Act 85) increased the per-acre, per-political subdivision payments, which takes effect in 2017/18.

DEP

Q: Does DEP's budget address concerns raised by EPA about PA's Safe Drinking Water program?
In December, the Environmental Protection Agency informed the commonwealth that its performance in enforcing the provisions of the federal Safe Drinking Water Act was unacceptable. EPA also reminded the commonwealth that minimum program requirements must be met for the state to retain primacy for the program. A loss of primacy could result in the withholding of hundreds of millions of federal dollars for environmental and water infrastructure programs, including the revolving PennVEST loan funds.

At a meeting of the Environmental Quality Board in May, DEP proposed a fee package to raise the revenue for additional staff to provide mandated protections of public drinking water. The fee package is still pending.

In the meantime, the administration has indicated it will use $3.5 million from the Safe Drinking Water Fund, a restricted account within the General Fund, to hire more inspectors and address EPA's concerns.

Q: How does the budget treat interstate commissions and boards funded by DEP?
This budget maintains the deep cuts made to these commissions under the House Republican budget plan, with the exception of the Chesapeake Bay Commission, which is restored to $275,000. These appropriations are intended to cover the "fair share" costs associated with Pennsylvania's membership in environmental interstate compacts, which have been lacking.

DCED

Q: Does the budget support the manufacturing initiative proposed by Gov. Wolf?
Yes. The budget includes the funding requested by the governor to establish a new appropriation – *Manufacturing* PA – and fund the Industrial Resource Centers alongside new partnerships between Pennsylvania's research universities. This also increases funding for the three remaining programs under the *Partnerships for Economic Performance (PREP)* appropriation.

Q: Does this budget increase funding for the state's tourism program to better compete with other states' advertising and outreach efforts?
The budget includes a moderate increase in funding for the *Marketing to Attract Tourists* appropriation, but these funds are not all dedicated to the department's tourism office.

Q: Does the budget restore funding for WEDNetPA?
The budget restores $15 million of the $20 million appropriation, but it is not yet known how much will be available for WEDNetPA.