



House Bill 453 Printer's Number 2410

Other

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(Note: This document will be updated as more information becomes available)

The House Republican budget proposal to take \$630.5 million from special funds to help balance the General Fund budget targets \$37 million in ill-advised cuts to a wide range of programs from finance and security to substance abuse.

These cuts would include a \$25 million diversion from the oversight of the commonwealth's financial system and an unknown amount (estimated by House Republicans to be at least \$8 million) from the judicial computer system, which provides for up-to-date technology across all levels of the commonwealth's legal system. Another \$4 million would come from historical preservation, a portion of which is already dedicated to payment on an agreement between the commonwealth, Shell, the Army Corps of Engineers and the Seneca Nation of Indians.

The Republican proposal would also cut \$4.5 million from grants to counties for substance abuse now being prioritized for the fight against opioids. The remaining \$3.4 million would come from cuts to state armories, an electronic health records initiative under DHS, and research to be conducted by the State Board of Education.

An additional \$40 million in transfers from legal settlements is proposed that most notably includes \$30 million in double counting (Volkswagen Settlement) and \$8 million that is legally required to be transferred to the Medicaid program (Mylan Pharmaceutical Settlement).

The following analysis reflects the House Republican proposal as adopted by the House in HB453 PN2410. This proposal has changed since the Republican Press Conference on Sept. 5. Since then, Republicans reduced proposed transfers from the Historical Preservation Fund, Substance Abuse, and the State Treasury Armory Fund. Notably, Substance Abuse cuts were decreased by only 10 percent, still taking \$4.5 million from the fund that could otherwise be used for substance abuse prevention.

Another significant change from the initial proposal relates to the Statewide Judicial Computer System. What was initially proposed as a transfer of \$9.5 million has been changed in HB452 PN2410 to a transfer of all unencumbered funds in the account.

Banking Fund

- Amount identified: \$25 million.
- Non-recurring

- Description
 - The Banking Fund is a special revenue account that receives fees, assessments, and penalties from entities under the supervision of the Department of Banking and Securities. It supports the general government operations of the Department of Banking and Securities.

Program(s)

- Money in the Banking Fund pays for the general government operations of the Department of Banking and Securities, which licenses, oversees, and/or regulates tens of thousands of entities within the commonwealth – from banks to financial advisors to mortgage lenders. Total disbursements from the fund to the department for 2017/18 would be \$23.235 million.

Impact on the People

- The operations of the Department of Banking and Securities are vital to the functioning of Pennsylvania’s economy. The department ensures the commonwealth’s financial system remains sound and protects the public from fraudulent or deceptive practices. **Any diversion of dollars from the Banking Fund that reduces the total funding available to the department could lead to reductions in the department’s oversight activities and could harm the overall integrity of the state’s financial system.**

Balances

- Over the past several years, the Banking Fund has maintained a significant balance. Further analysis will be done to determine whether transferring funds will jeopardize funding for the Department of Banking and Securities.

Historical Preservation Fund

- Amount identified: \$4 million.
- Department: Pennsylvania Historical and Museum Commission
- Description: The Historical Preservation Fund helps provide for the care and maintenance of the commonwealth’s historical properties, museums and records, and supports historical research and publications.

Conflicts

- For many years, the fund’s primary source of revenue was admission fees to the historic sites maintained by the commonwealth. These funds supported the operations of PHMC, and a small balance remained in the fund.
- However, beginning in 2015/16, \$5.5 million to support a specific mitigation project run by the Pennsylvania State Historic Protection Office has been deposited into the fund. The mitigation project, arising from the loss of historic properties from the construction of the Shell cracker plant in Beaver County, is part of an agreement between the commonwealth, Shell, the Army Corps of Engineers and the Seneca Nation of Indians. PHMC says the transfer of these funds would cause a lawsuit. Other restricted mitigation monies also are on deposit in the fund.

Impact on the People

- Pennsylvania Historical and Museum Commission operations, and a specific mitigation project that the commonwealth is required to complete.

Cost Shifts

- Some risk exists if there is an impact to historical records facilities and local governments.

Revenue Source

- Admission fees to historic sites and museums, sale of publications, and recently, mitigation funds for the Pennsylvania State Historic Preservation Office.

Balances

- Most of the Historical Preservation Fund balance is tied to the mitigation project and must be used for that purpose.

Substance Abuse Education and Demand Reduction Fund

- Amount identified: \$4.5 million.
- The raid is proposed as a one-time fund transfer.
- Description: The SAEDR fund, established in 2002, receives fee revenue from \$100 and \$200 fines on convicted drug and DUI offenders, respectively. Money in the fund is given out in grants administered by the Pennsylvania Commission on Crime and Delinquency to provide for substance abuse prevention, treatment, and education. A portion of funds are specifically allocated to prevention and education for youth, and in the workplace.
- Every dollar removed from this fund is one less dollar available for substance abuse treatment and prevention. In 2016/17, the majority of SAEDR grants targeted the opioid epidemic.
- Bottom line: A cut to SAEDR is a cut to the fight against opioids addiction.

Programs

- Substance Abuse Education and Demand Reduction Grants, PCCD (85%)
- Community Drug Abuse Prevention Program, Office of the Attorney General (10%)

Impact on the People

- A raid on this fund would impact communities ravaged by substance abuse, especially the individuals suffering from addiction, and their families.
- Reducing funding for substance abuse treatment would hit individuals without health insurance especially hard. Dedicated funds for education and prevention may not be replaced, as service providers would be forced to allocate their resources to the most immediate problems (treatment and overdose prevention).
- When fewer state funds are available, the opioid epidemic and substance abuse problems do not simply disappear. Counties that benefit from these funds would be forced to either increase local support to these programs (in already tight county budgets) or, more likely, reduce services.
- Funds are available to all counties. In 2016/17, funding went to Allegheny, Berks, Blair, Bucks, Cambria, Clarion, Indiana, Somerset, Washington, and several statewide organizations.
- Republicans who participated in the press conference proposing this program cut represent two of the counties that received SAEDR funding in 2016/17: Berks and Indiana counties.

Balances

- Grants are awarded at each of PCCD's four quarterly commission meetings. The positive balance at the fiscal year end is necessary for grants to be awarded in the first quarter of the next fiscal year. This means the grants counties are applying for right now are at risk.
- Currently, Pennsylvania non-profits and counties are applying for \$2.86 million in awards. If \$4.5 million is removed from the fund, those grants would not be awarded. As a result of a raid of these funds, PCCD would have to wait for fee revenues to accrue before it could begin issuing grants again. The grant timeline would be pushed back at least one quarter and the total amount of funding available for grants in this year and future years would be decreased.
- Treasury reports a fund balance of only \$0.27 million in cash or cash equivalent assets.

Legal Consequences

- Under 18 P.C.S. §7508.1, state law stipulates that SAEDR funds may only be used for research-based substance abuse prevention and education. Transferring money out of this fund for another purpose would require new legislation.

State Treasury Armory Fund

- Amount identified: \$750,000
- Non-recurring
- Description: The State Treasury Armory Fund receives money from the sale of state armory buildings and associated real estate. Revenue is used to purchase new equipment and repair existing armories or to construct new armories.

Program(s)

The Armory Improvements program draws money from the State Treasury Armory Fund for maintenance, repairs, and equipment upgrades at the armory facilities managed by the Department of Military and Veterans Affairs. For 2017/18, \$1.585 million was budgeted for this purpose.

Impact on the People

- The Department of Military and Veterans Affairs is responsible for maintaining the readiness of the Pennsylvania National Guard, including its armories and associated facilities. However, there is no requirement that a specific amount be spent each year on maintaining them. The State Treasury Armory Fund currently receives money from the sale of armory facilities and reinvests it in maintaining those armories still owned and operated by the department. While maintenance on these facilities can be postponed, the failure to invest in them could eventually jeopardize the readiness of the Pennsylvania National Guard in the event of deployment for combat or emergency response.

Balances

- The State Treasury Armory Fund currently maintains a balance of just over \$3 million and has done so for several years. While the Department of Military and Veterans Affairs doesn't explicitly need a cushion in this fund to cover long-term contracts or commitments, the proposed transfer would leave it with virtually no funds in reserve.

Pennsylvania eHealth Partnership Fund

- Amount identified: \$1.99 million.
- Non-recurring
- Description: The fund was originally established to support the Pennsylvania eHealth Partnership Authority, which was consolidated under the Department of Human Services in last year's Human Services Code (Act 76 of 2016). The aim of the program is to establish and maintain a statewide health information exchange.
- Impact: While the Human Services Code stated the remaining balance of the fund was not to be transferred to the General Fund, the governor's budget proposal assumed the transfer of the remaining balance.

Impact on the People

- The eHealth Partnership Authority – and relevant fund – was created to improve parity and utilization of electronic health records across statewide health care providers. This mission should continue under DHS.

Balances

As of Sept. 1, the fund's balance is \$1.99 million.

State School Fund

- Amount identified: \$672,000 thousand.
- The raid is proposed as a one-time fund transfer to zero out the balance of the fund.
- Description: The State School Fund is used by the State Board of Education to periodically fund research and other small projects. The fund receives money from the sale of escheated estates and other nonpublic real estate and interest earnings of the Sinking Fund.

Impact on the People

- Members of the general assembly benefit from the policy guidance provided by research supported by the State School Fund, often as requested by the legislature or otherwise required by statute.
- The State Board of Education is required by law to update the Master Plan for Basic Education and the Master Plan for Higher Education. The State Board of Education recently authorized \$54,000 from the fund to pay for this update to the basic education plan – an update called for by the auditor general.

Balances

- The fund receives only a few thousand dollars in revenue annually. The available balance carries forward and is continuously appropriated to PDE for approved purposes.

- The State Board intentionally keeps expenditures in line with revenue in order to ensure available funds for research projects that are required by law from time to time.

Legal Consequences

- Article XXVI Section 2604 of the School Code (Act 14 of 1949) requires that the State School Fund be used to equalize educational opportunities and for research projects and other activities approved by the State Board of Education. Diverting funds for other purposes would require a change to this law.

Statewide Judicial Computer System

- Amount identified: At least \$8.0 million
- Non-recurring
- Description: The Statewide Judicial Computer System is funded from a restricted revenue account within the General Fund, which receives certain designated fee revenues. These funds are expended by the Administrative Office of Pennsylvania Courts for upgrades to the integrated computer system, which serves the various components of the commonwealth's judicial system.

Program(s)

- Expenditures on the Unified Judicial Computer System amount to tens of millions of dollars each year, with total expenditures of \$57.048 million planned for 2017/18. The investments made in the judicial computer system reach all levels of Pennsylvania's legal system and are important to maintaining the functioning of courts at all levels.

Balances

- Given the long-term nature of investments in information technology, many contracts extend over multiple years and/or are finalized prior to the fiscal year in which funds may be disbursed. Since the funding stream for this program is irregular, AOPC uses the balances in the restricted revenue account to manage its contracts and investments. The proposal to transfer all unencumbered reserves from this restricted revenue account could inhibit the ability of AOPC to engage in long-term planning and slow the full implementation of its information technology rollout.

Legal Settlements

Volkswagen Settlement

- The Office of the Attorney General was a party to a settlement with Volkswagen for manipulating the emissions results on many of its diesel vehicles sold in the United States. Pennsylvania received \$30.4 million under this settlement, all of which was required to be spent on environmental programs under the settlement agreement. These funds have been received by the attorney general and transferred to the Treasury. The Executive Budget already planned to use these funds to offset General Fund spending on environmental programs, so any proposed use under the Republican plan would be double counting the settlement proceeds.

Mylan Pharmaceutical Settlement

- The Office of the Attorney General was party to a settlement agreement with Mylan Pharmaceutical for overcharging for its EpiPen product. The total nationwide settlement amounted to \$465 million, of which Pennsylvania received \$8.3 million. These funds have already been received by the state and returned to the Medicaid program, per the requirements of the settlement agreement. While these funds are specifically dedicated for Medicaid, they could be used to offset General Fund spending which could then be repurposed.

Nationwide Security Breach Settlement

- The Office of the Attorney General was a party to a settlement agreement with Nationwide Mutual Insurance Company for a data breach that resulted in the loss of sensitive customer information. After deducting the OAG's costs for litigation, the settlement generated \$214 thousand in net proceeds that have been transferred to the Treasury. The Republican proposal would transfer \$249,000, more than the available amount.