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*Governor's Budget Request*

*FY 2015-2016*

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*For the Wolf Administration's first budget proposal, the Governor pledged he would be bold and he did not disappoint today. The crisis left to him by the previous administration and General Assembly left him with no choice. Four years of inaction on the problems that face the state while clinging to ideological slogans has left the state with a \$2.3 billion structural deficit, the slowest job growth in the nation and no investments for the future. The budget presented by Governor Wolf today changes all of that.*

*The budget Governor Wolf unveiled today takes giant steps toward fixing the structural deficit with tax increases and permeant cuts to spending through government efficiencies. It re-invests in public schools and in higher education. It reforms corporate taxes making them fairer and lower. It tackles the property tax conundrum that has plagued the state for decades. This budget is designed to stop the commonwealth from lurching from crisis to crisis.*

*This report highlights the bold solutions planned by Governor Wolf as part of his budget introduced today.*

## **General Fund Overview**

### **2014-15 Budget**

The fiscal year (FY) 2014-15 budget was "balanced" with nearly \$2 billion in one-time revenues and some of those gimmicks have not materialized. It was no secret that the FY 2015-16 budget would start with an actual deficit of \$2.3 billion. Even the amounts appropriated for some of the line items were below what was going to be required. Governor Wolf is requesting \$81.2 million in supplemental appropriations for the current year. Those supplementals would be paid for by further lapses of about \$150 million. Fortunately, revenue collections are currently running \$377 million above the official estimate as of the end of February. Governor Wolf is forecasting tax revenues to be \$4 million below the estimate at the end of the year.

Another small change that Governor Wolf is proposing is a significant change in philosophy. His proposal reinstates the transfer of 25% of the General Fund surplus to the budget stabilization fund to begin building a revenue cushion for the future. There was never a contribution placed there by Governor Corbett. The contribution will be a small one, only \$3 million, but the Governor intends to add to that next year.

### **2015-16 Budget**

The FY 2015-16 budget is built on growth of existing revenues of only \$448 million or 1.48%, which is lower than the 2.8% revenue growth for the current budget year. The Governor does propose revenue increases of \$4.66 billion of which \$2.1 billion will be transferred to property tax/rent relief account. The details of the revenue enhancements will be provided later in this report.

The Governor proposes that expenditures will grow by \$837 million or 2.8%, from \$29.05 billion to \$29.88 billion. This report will explain these planned expenditures and the Governor's initiatives that will replace the panicky reaction to events that has plagued this state's government with long term strategic planning.

### **2014-15 Revenues**

As of the end of February, revenue collections are \$377 million above the official estimate. The Governor is projecting that collections will finish the year \$4 million below the estimate. The chart on the next page shows the adjustments that are expected for FY 2014-15 revenue collections. It is true that several of the one-time revenues that were being counted on to balance the current budget are not going to materialize. The previous Governor called for \$95 million from leasing state park land for natural gas development. That leasing will not happen. There were also payments for two additional gaming licenses that were expected but will not happen in this fiscal year.

Had the budget last June not been so hastily slapped together without regard for whether it would really hold together, then the good news of expected tax revenues being \$185.7 million more than the official estimate would help reduce the structural budget deficit. Instead the Governor is expecting \$4 million less in total funds than was expected as shown on line 30 in the middle column.

The chart shows some impressive increases in two of the more important general fund taxes as the corporate net income tax is raised by \$209 million, as shown on line 1, and the sales tax is adjusted upward by \$96 million as shown on line 10. The personal income tax is decreased by \$82 million as shown on line 15.

*(Amounts in thousands)*

Revenue Source	FY 2014-15		FY 2014-15
	Official Estimate	Budget Book Adjustment	Adjusted Estimate
Corporate Net Income	2,501,200	209,900	2,711,100
Capital Stock	269,300	(47,400)	221,900
Utility Gross Receipts	1,304,700	(22,900)	1,281,800
PURTA	37,400	(200)	37,200
Insurance Premiums	437,300	14,300	451,600
Financial Institutions	324,000	(9,200)	314,800
Other Business	3,000	800	3,800
Total Business Taxes	4,876,900	145,300	5,022,200
Sales	9,477,700	96,600	9,574,300
Cigarette	938,800	(15,600)	923,200
Malt Beverage	25,400	(1,100)	24,300
Liquor	336,300	(700)	335,600
Personal Income	12,032,800	(82,200)	11,950,600
Realty Transfer	447,500	(49,200)	398,300
Inheritance	934,500	65,700	1,000,200
Table Games	92,200	1,800	94,000
Minor & Repealed	(54,000)	25,600	(28,400)
Small Games Chance	1,000	(500)	500
Total Tax Revenue	29,109,100	185,700	29,295,300
Liquor Store	80,000	0	80,000
Lic. Fees & Misc.	924,755	(194,355)	730,400
Fines, Pen. & Interest	67,100	4,600	71,700
Total Non-Tax Rev.	1,071,855	(189,755)	882,100
Total General Fund Rev.	30,180,955	(4,055)	30,177,400

## 2015-16 Revenues

The Governor is projecting that without any changes to the tax laws, revenues of existing taxes will grow by \$448 million, or 1.48%, over the FY 2014-15 adjusted revenue amount.

### Tax Changes

The tax changes proposed by Governor Wolf for his FY 2015-16 budget are listed in the table below. There are numerous increases and decreases in the Governor's proposal, but the effect is threefold: the increases mainly pay for the property tax reduction, business tax relief, and also help close the \$2.3 billion structural deficit left from the previous administration.

<u>TAX</u>	<u>CHANGE</u>	<u>INCREASE(DECREASE) TAX REVENUE (Millions)</u>	<u>EFFECTIVE DATE</u>
Corporation Taxes			
CNI	Rate from 9.99% to 5.99%	(\$749.1)	January 2016
CNI	Close Delaware Loophole	\$500	January 2016
Capital Stock Tax	Eliminate All of Tax	(\$67)	January 2016
Bank Shares	Restore Revenues to previous level	\$339	January 2014
Natural Gas	Institute an Extraction Tax	\$165	January 2016
Individual Taxes:			
Sales Taxes			
Rate Increase	Raise rate by .6%	\$376.9	January 2016
Eliminate Exemptions	Similar to SB 76	\$1,158.7	January 2016
Cigarette Tax	Raise by \$1.00/ pack	\$358.4	September 2015
Other Tobacco Prod.	Tax at same level as cigarette tax	\$72.4	September 2015
Personal Income			
Rate Increase	Rate from 3.07% to 3.7%	\$2,376.7	July 2015
Expand Poverty Forgiveness	Family of 4 exempt up to \$36,000	(\$90.2)	July 2015
School Property Tax	Significant Residential Reduction	(\$3,600)	September 2016

**Corporate Net Income Tax (CNI)** - The Governor's proposal would change Pennsylvania from having the second highest state rate to the 10th lowest rate when fully phased in. He would do this in three steps, but the reduction in January 2016 would be by far the most significant. The rate would reduce by 4 full percentage points in that first step and then another full percent in half a percent step increments over the next two calendar years.

The Delaware loophole, that has allowed some businesses to shield much of their income, would also be closed bringing fairness to all payers of this tax. By closing the loophole, most businesses will pay a

much closer approximation of their actual earnings in Pennsylvania, but at a rate that makes Pennsylvania an attractive destination for businesses.

**Capital Stock and Franchise Tax** - The Governor's budget proposal would allow this tax to fully phase out on January 1, 2016. The original proposal started 16 years ago and called for this tax to phase-out in 10 years. The Governor's budget proposal finishes the last .45 mills still being levied on the tax.

**Bank Shares Tax** - The bank shares tax was revised for the 2014 tax year to generate more from out of state banks that were doing business in Pennsylvania, but not paying the tax at a level that correctly reflected their activity. The revision was designed to be revenue neutral. It was not revenue neutral and this proposal resets the rate to make the bank shares tax revenue neutral and recoup the lost revenue from the previous two years.

**Marcellus Shale Extraction Tax** - The Governor proposes a natural gas extraction tax of 5% on the value of natural gas produced and 4.7 cents on the amount of extracted within the state. Pennsylvania is the only state with significant gas production in the U.S. that does not have an extraction tax. The Governor would replace the ill-conceived impact fee beginning on January 1, 2016 with an extraction tax. When the tax is fully phased in, revenues will be made available to protect dollars received by local governments affected by drilling under the impact fee. The remainder would primarily fund the replacement of lost school funding that occurred under the previous administration.

**Sales Tax** – The sales tax rate would be raised from 6% to 6.6% beginning January 2016. This rate has not been changed since 1968. The proposal would also eliminate most of the exemptions currently available on many purchases. The exemptions for food, clothing and medical care would continue.

**Personal Income Tax** – The rate would increase from 3.07% to 3.7% beginning July 1, 2015. Even after this increase, Pennsylvania would still have the third lowest rate in the nation trailing only Indiana and North Dakota. To protect lower income persons from this increase, the Governor proposes that the poverty forgiveness for the claimant be raised from \$6,500 to \$8,700. This is designed to completely exempt a family of four earning up to \$36,000 from any income tax payment.

**Cigarette Tax** - An increase of \$1 a pack is proposed. This would raise the rate from \$1.60 a pack to \$2.60 a pack.

**Other Tobacco Products** – Under the proposed budget plan, Pennsylvania would join every other state in taxing smokeless tobacco and large cigars. This tax will be at 40% of the price, which is equivalent to the \$2.60 a pack tax on cigarettes.

**School Property Tax Reduction** – The Governor proposes a \$3.8 billion property tax decrease to begin in September 2016 when school property tax bills would become due. The Governor would use the existing homestead exemption and fund it to its maximum or beyond in some school districts. Since property taxes can be reduced up to 50% of the median homestead house assessed value, most homeowners will see a 50% reduction in their school property taxes and some will owe no tax at all. Philadelphia will have increased reductions to their wage tax for both residents and non-residents. This reduction will be paid for from many of the other increases listed above.

## Pensions

The Governor proposed three important changes to the pension systems. The first one is a simple thing but one that has important consequences for the solvency of the school employees pension fund. The Governor proposes that the annual cost of the PSERS contribution be taken out of each month's tax collections and place into a restricted receipt account where it will be paid to PSERS monthly. This simple move should insure that the commonwealth meet its fiduciary obligation. It was the state's unwillingness to meet this obligation that created the \$36 billion unfunded liability in the first place.

The second proposal of the Governor is the issuance of a \$3 billion pension obligation bond (POB) to provide additional resources to PSERS to earn investment returns to accelerate the pay down of the unfunded liability. The issuance of a POB will reduce the unfunded liability by \$7 billion over life of the

bond. Increased liquor store revenue from modernization of its operations and a permanent end to the double payment of charter school pension costs would fully fund the repayment of the pension obligation bonds. As the unfunded liability is reduced from the proceeds of the bond significant savings would accrue to the employers in the form of smaller annual payments. The estimated savings are \$370 million for the school districts and \$900 million to the state over the payback period of the bonds.

The third proposal is an increased efficiency obtained by reducing the investment fee costs for both systems. It is believed that savings could be \$2 billion over time.

It is important to note that by fiscal year 2016-17 the employers will be paying the full annual required contribution (ARC) as specified by the payment schedule in Act 120 of 2010. After 2016-17 the increases in annual payments slows dramatically and becomes much less of a strain on new budget dollars. The proposals in the Governor's budget supplement the solid achievements of Act 120 and will insure that the pension debt is paid and with less disruption to both school and commonwealth budgets.

## **Lottery Fund**

Pennsylvania's Lottery is recognized as one of the best operated lotteries in the nation, experiencing increased sales every year. Proceeds fund critical programs for the commonwealth's seniors.

The Governor's Budget Office projects 2014-15 gross ticket sales will grow by 3.43% over 2013-14. However, net revenues are expected to decrease by 2.06% due to growth being largely in instant sales and not terminal game sales which have a larger rate of return. The enacted 2014-15 assumed sales growth of 7.8%.

The 2015-16 Executive Budget estimates gross ticket sales will grow by 8.27% and net revenues by 8.38%. Even with these growth assumptions, the Lottery Fund reserve of \$75 million will be depleted in order to sustain projected expenditures and account for not meeting revenue estimates in 2014-15.

Total 2015-16 Lottery Fund expenditures equal \$1.949 billion, an increase of \$342,000 (0.02%) compared with 2014-15. The proposed budget pulls \$81.909 million for long term care related services back into the General Fund, yet increases Lottery Fund expenditures for PENNCARE, Pre-Admission Assessment, PACE/PACENET, Transfer to the Public Transportation Assistance Fund, operations, commissions and prize payments. The proposed budget estimates a Lottery Fund ending balance of \$12.437 million with no reserve.

## **Tobacco Settlement Fund**

Act 77 of 2001 created the Tobacco Settlement Fund (TSF) to receive the revenues from the Master Settlement Agreement (MSA) that was reached with the five major tobacco companies in December 1999. Act 77 designated funding from each MSA payment received for health-related expenditures outlined in the statute. Since 2005-06, disbursements have been recalculated in amendments to the Fiscal Code to also dedicate TSF monies toward offsetting the cost of long-term care services for persons with disabilities and older Pennsylvanians. The 2015-16 budget proposes to reallocate funds once again in the Fiscal Code to offset General Fund costs for long-term care. In addition, Act 126 of 2014 (changes to the Fiscal Code) transferred \$225 million in Tobacco Settlement Funds to the Public School Employees' Retirement System (PSERS) as part of the commonwealth's mandated payment to the pension system.

<b>Tobacco Settlement Fund - Allocation Percentages</b> <i>(in thousands)</i>	<b>Act 77 of 2001</b>	<b>Act 71 of 2013</b>	<b>Act 126 of 2014 FY 2013-14</b>	<b>Act 126 of 2014 FY 2014-15</b>	<b>2015-16 Gov's Proposed</b>
Home and Community Based Services	13.00%	13.00%	13.00%	13.00%	13.00%
Tobacco Use Prevention and Cessation	12.00%	4.50%	2.93%	4.50%	4.50%
Health Related Research (Section 906)	18.00%	12.60%	6.30%	12.60%	12.60%
Health Related Research (Section 909)	1.00%	1.00%	0.50%	1.00%	1.00%
Uncompensated Care	10.00%	8.18%	4.09%	8.18%	8.18%
MAWD	30.00%	30.00%	30.00%	15.12%	30.00%
PACENET	8.00%	8.00%	0.00%	0.00%	0.00%
Health Endowment Account	8.00%				
Health Related Purposes		22.72%	43.18%	45.60%	30.72%

In September 2013, an arbitration panel issued an adverse decision to the commonwealth relating to a non-participating manufacturer (NPM) adjustment dispute on MSA payments received in 2004. The Attorney General challenged the decision and the 2013 MSA assessment has been recalculated. Several of the revised 2013-14 appropriations have been placed in budgetary reserve pending the receipt of any additional funds from this payment agreement. In addition, the budget document reflects revised 2014-15 appropriations based on a lower estimated April 2015 MSA payment.

The 2015-16 budget proposes the following allocations for Tobacco Settlement programs:

- \$3 million for Life Sciences Greenhouses
- \$13.151 million for tobacco use cessation and prevention programs'
- \$39.745 million in total for health research funding
- \$87.675 million in state and \$94.839 million in federal funding for Medical Assistance for Workers with Disabilities
- \$23.906 million in state and \$25.906 million in federal funding for Uncompensated Care payments to hospitals
- \$37.993 million in state and \$41.176 million in federal funding for Home and Community Based Services

\$106.609 million for Medical Assistance Long Term Care. This is \$132.32 million less than was allocated in 2014-15 shifting costs back to the General Fund.

## **Executive Offices**

The proposed budget for fiscal year (FY) 2015-16 includes a total state appropriation of \$183.4 million for the Governor's Executive Offices, representing an increase of \$10.5 million, or 6.1%, over its FY 2014-15 supplemental level. Listed below are the notable funding adjustments proposed for line item appropriations within the Governor's Executive Offices that comprise the majority of its state funding increase mentioned above:

- An increase of \$10.8 million for Commonwealth Technology Services (CTS), raising its total appropriation to \$65.5 million. CTS provides information technology services to state agencies and administers the data center outsourcing contract. This increase would fund new enterprise investments to improve the commonwealth's information technology infrastructure.
- \$330,000 in new funding for the Human Relations Commission, raising its total appropriation to \$9.58 million. The Commission enforces the PA Human Relations Act by processing complaints of discrimination or ethnic intimidation and by providing technical assistance to businesses, individuals and other entities to promote voluntary compliance. The proposed increase for the Commission would enable it to continue its current level of programming.
- The elimination of funding for the Child Advocacy Centers line item, an initiative instituted as part of the Child Protection Task Force in 2012. As part of the Governor's Executive Offices, this appropriation provided funding for Child Advocacy Center operational support and expansion.

The primary goal of the centers was to provide a child-focused, facility-based program dedicated to coordinating a formalized multidisciplinary response to suspected child abuse in partnership with other agencies. The elimination of this line item is being proposed to reflect a new source of funding for the centers in Act 28 of 2014. A total of \$2.7 million is projected to be available to the centers through their new funding source in FY 2015-16, compared to \$2.25 million in general fund revenue in FY 2014-15.

- A proposed increase of \$2 million for the Grants to the Arts appropriation, raising its total to \$10.59 million in FY 2015-16. This increase would be utilized to promote, and provide additional support for, arts in the commonwealth.
- A proposed reduction of \$700,000 for the line item dedicated to Violence Prevention Programs, lowering its total funding to \$3.86 million in FY 2015-16. This proposed decrease is attributed to a “general reduction” in funding for the programs.
- In addition to these funding adjustments, the Governor’s budget proposes to transfer the funding responsibility of the Public Employee Retirement Commission (PERC) and the Safe Schools Advocate from Executive Offices to other areas of the budget. PERC is proposed to transfer to the Legislative Commission section of the budget and the Safe Schools Advocate is proposed to transfer to the Department of Education. Both PERC and the Safe Schools Advocate are proposed to receive level funding over FY 2014-15, in the amounts of \$914,000 and \$388,000 respectively.

## **Row Offices**

### ***Attorney General***

The Governor’s budget provides a total state appropriation of \$95.5 million to run the activities of the Attorney General. This represents an increase of approximately \$3.2 million over the Office’s supplemental FY 2014-15 level. Included within this increase is an additional \$1.67 million for the Office’s General Government Operations, increasing its total state appropriation to \$43.55 million, which would be dedicated to continue its current level of operations (mainly rising pension and benefit costs). The other increases to line items within the Office that comprise its total overall increase in state funding are listed as follows:

- Over \$1 million in new funding for the Drug Law Enforcement and Local Drug Task Force’s appropriations when combined in FY 2015-16, increasing their appropriations to \$26.62 million and \$12.18 million respectively. The combined increase for these appropriations would be utilized to continue their current programs.
- \$80,000 in new funding for the Joint Local-State Forearm Task Force, raising its total state appropriation to \$3.81 million in FY 2015-16. This increase would be utilized to continue the current program.
- Nearly \$150,000 in new funding for the Child Predator Interception line item, increasing its total funding to \$4.24 million in FY 2015-16. This increase would be utilized to continue the current program.
- \$220,000 in new spending for the line item dedicated to Tobacco Law Enforcement, raising its total allocation to \$1.13 million in FY 2015-16. This increase would be utilized to continue the current program.
- An additional \$64,000 for the Mobile Street Crimes appropriation, increasing its total funding to \$2.54 million FY 2015-16. This increase would be utilized to continue the current program. The Mobile Street Crimes Unit has been a priority of the Attorney General.

### ***Auditor General***

After years of stagnate funding under the previous administration, the Office of the Auditor General receives a much needed boost in spending in Governor Wolf’s proposed budget for fiscal year (FY)

2015-16. Total state funding for the Office is increased to just over \$49 million, up \$4.2 million, or almost 10%, over its FY 2014-15 supplemental level. The bulk of this increase is derived from adjustments to the following line item allocations within the Office:

- Funding for the Office’s General Government Operations line item is proposed at \$42.25 million, up roughly \$860,000 from FY 2014-15, which would be utilized to continue the current level of operations in the Office (mainly rising pension and benefit costs).
- Funding for the Office’s “Information Technology Modernization” line item is proposed at \$5 million, an increase of \$3.25 million over FY 2014-15. Instituted in FY 2013-14, this appropriation was created for the Office as part of a three year plan to update and modernize its outdated technology infrastructure. Over the last two fiscal years (FY 2013-14 & FY 2014-15), a combined total of \$3.5 million (\$1.75 million in FY 2013-14 and \$1.75 million in FY 2014-15) has been allocated to the line item, well short of the Office’s initial total funding request. However, the Office devised a number of efficiencies over the last two fiscal years that enabled it to keep pace with planned updates including:
  - new computers;
  - transitioning to SAP for HR and procurement purposes;
  - security analysis;
  - extended connectivity for field auditors;
  - VOIP phone system.

The \$5 million proposed by the Governor for the line item in FY 2015-16 would increase total project funding to \$8.5 million, when combined with the \$3.5 million over the last two fiscal years. If enacted, the proposed amount of \$5 million would meet the Office’s funding request and enable it to implement a new electronic document management system, the final major scheduled update of the entire project.

## **Treasury**

The funds for Treasury’s general government would decrease by \$1.2 million or 3.4% from the current year’s funded level. The appropriation for the Board and Finance and Revenue, which was reformed last year, is slated for an increase of \$210,000 or 8.4%.

As further evidence of the damage wrought upon the general fund over the last four years by spending down all reserves there is a projected increase of \$12 million for tax anticipation notes. General obligation debt service payments are also expected to increase by \$60 million in the 2015-16 fiscal year.

## **Aging**

The **Lottery Fund** provides funding for programs under the Department of Aging, including department operations. The proposed 2015-16 budget includes \$504.386 million in state Lottery Funds for the Department of Aging.

The **PENNCARE appropriation** funds a network of in-home and community-based services for older Pennsylvanians geared at delaying or avoiding institutionalization. Services are coordinated at the local level through the 52 Area Agencies on Aging (AAAs). Programs and services range from meals and transportation to attendant care in-home personal care services. The proposed budget requests a supplemental appropriation of \$3.936 million for 2014-15. The proposed 2015-16 budget includes \$305.190 million for PENNCARE, an increase of \$5.884 million (1.97%) over adjusted 2014-15 spending.

- The 2015-16 proposed budget includes \$1.809 million to provide attendant care services to an additional 228 recipients who transfer from the Department of Human Services (DHS) Attendant Care program at age 60.

- The requested increase also includes \$4.075 million to reflect full-year costs of 2014-15 expansions and the prior year adjustment of federal financial participation (FMAP).

The **Pre-Admission Assessment** program provides for assessments of individuals applying for nursing facility care within the commonwealth. The process includes education for consumers who may be better served in a home and community based setting. The proposed budget includes \$16.135 million in state Lottery funds for this program.

- The 2015-16 proposed budget includes \$5.4 million to provide 2,290 individuals pre-admission assessments for nursing home eligibility and maximize federal funds available to support AAAs with this task.

The state **Caregiver Support** program provides support services for caregivers who are caring for an older, functionally dependent relative. Components of the program include benefits counseling, caregiver training and education and some financial reimbursement for expenses incurred. Financial assistance is determined based on a sliding scale depending on need, income and expenditures. The proposed budget includes \$12.103 million in state Lottery funds for this program. This is level-funded compared with 2014-15.

The **Alzheimer's Outreach** appropriation provides training, education and outreach to families, medical professionals, human service providers and the general public on Alzheimer's disease. The proposed budget includes \$250,000 in state Lottery funds for this program. This is level-funded compared with 2014-15.

Competitive grants are provided to **Senior Centers** for repairs, renovations and other needs. The proposed budget includes \$2 million in state Lottery funds for this program. This is level-funded compared with 2014-15.

**PACE, PACENET** and **PACE plus Medicare** are Pennsylvania's prescription assistance programs for older adults, offering low-cost prescription medication to qualified residents, age 65 and older. Funds are transferred from the Lottery Fund and the Tobacco Settlement Fund to the **Pharmaceutical Assistance Fund**. The proposed budget transfers \$160 million from the Lottery Fund to the Pharmaceutical Assistance Fund. This is \$5 million more than 2014-15. As in 2014-15, the proposed budget does not include a Tobacco Settlement transfer to PACENET in 2015-16.

## Agriculture

In recent budgets, the Department of Agriculture has been largely left level funded; with the occasional increase in General Government Operations. Due to increased costs with pensions and health care, Governor Wolf's proposal calls for an increase of \$2.1 million for General Government Operations. PA Preferred Program Trademark Licensing, which has been eliminated in recent proposals and restored to the final product, is slated to be level-funded.

For the first time since early in the Rendell administration, there will be an increase in the State Food Purchase Program funding. It will see an increase of \$2.9 million for 2015-16.

Similar to past administrations, the Governor's proposed budget calls eliminates some of the Department of Agriculture's funding lines. It zeros out the Agricultural Excellence, Agricultural Research, Agricultural Promotion, Education and Exports, Hardwoods Research and Promotion, Livestock Show, Open Dairy Show, and Food Marketing and Research. Both Governors Rendell & Corbett had proposed eliminating these lines in the past, only to have them restored for the final budget each time.

## Community and Economic Development

Compared to 2010-11, the 2014-15 budget represented a \$99.5 million (32.8%) cut in total state General Fund department expenditures. Recognizing the important role DCED plays in spurring

economic growth, Gov. Wolf's 2015-16 budget proposal restores funding or invests new state dollars in several appropriations:

- \$150,000 to increase monitoring and compliance in federally funded housing and urban development program
- \$1 million additional state dollars for **Marketing to Attract Business** to develop and purchase marketing and communication tools to attract business.
- \$1 million additional state dollars for **World Trade PA** to maintain PA's status as a leader in international business development.
- \$775,000 for protecting Pa military installations in the next **Base Realignment and Closure** actions to preserve PA's military families.
- \$2 million additional state dollars for **Marketing to Attract Tourists** to promote commonwealth-wide tourism efforts. Note \$5 million for projects historically restored by the General Assembly is eliminated.
- \$25 million additional state funds under the **PA First appropriation** (Opportunity Grants, Infrastructure Development, and Customized Job Training) to foster investment, job creation and provide support for WEDnetPA, a critical employee training program available to PA employers.
- \$12 million to support **Industrial Resource Centers** and to utilize PA universities to advance manufacturing technology and commercialization.
- \$11 million for **Infrastructure and Facilities Improvement Grants** to increase multi-year financial assistance to service debt on major infrastructure projects.
- \$4 million for **Public Television Technology** via the PA Public Television Network to increase technology to educate, inform and connect the citizens of Pennsylvania. These grants were last funded in 2009-10.
- \$15 million for **Keystone Communities** (Main Street, Elm Street and Core Communities) to foster growth and stability in PA communities and neighborhoods.
- \$1 million under **Early Intervention for Distressed Municipalities** to assist municipalities experiencing fiscal difficulties.

The DCED proposed budget also includes an additional \$19.245 million to provide debt service payments for economic development bonds.

The budget proposal eliminates funding for the Infrastructure Technology Assistance Program, Discovered in PA/Developed in PA, Super Computer Center, Powdered Metals, Tourism-Accredited Zoos, and Rural Leadership Training. Historically, many of these appropriations are restored by the General Assembly.

In addition to DCED programs, the proposed budget includes a **Made in Pennsylvania job creation program** providing a \$5 million tax credit for manufacturers that create good-paying, middle class jobs.

Related to economic development, the proposed budget also includes a **new \$675 million economic growth bond**, funded by a portion of Marcellus shale tax revenues to support economic development initiatives to leverage private sector investment and create jobs. Funding will include:

- \$100 million to the Pennsylvania Industrial Development Authority to address the decimation of the Machinery and Equipment Loan Fund and Small Business First Fund by the Corbett Administration to balance the FY 14-15 budget.
- \$100 million for new technology investments to support entrepreneurs, established companies and manufacturing innovation.
- \$225 million for energy investment centered around:
  - Combined heat and power generation (Cogeneration) – a \$30 million competitive grant program to business that employ new technologies to produce heat and power on-site
  - Wind -- A \$20 million investment to facilitate construction of new wind farms.

- Green Agriculture -- \$20 million competitive grant program to make farms more self-reliant.
- PA Energy Development Fund -- \$30 million to expand clean energy markets.
- "Last Mile" Natural Gas Distribution Line Fund -- \$25 million in matching grants to business parks and manufacturers to construct pipelines.
- Solar Investment – \$50 million to relaunch the PA Sunshine program, which provides rebates to qualified solar project
- Energy Efficiency -- \$50 million in competitive grants to fund energy efficiency improvements at small business, local governments, schools, etc.
- \$250 million to recapitalize the very successful Business in Our Sites. Since its inception in 2004, this site preparation program has led to the creation of over 18,000 jobs and \$1.8 billion in private investments.

## **Conservation and Natural Resources**

The Governor's proposed budget for fiscal year (FY) 2015-16 takes positive steps to reverse years of dramatic general fund cuts within the Department of Conservation and Natural Resources by the previous Corbett Administration. Total General Fund (or state) spending for the Department is increased to \$34.2 million in FY 2015-16, more than doubling its total allocation of \$14.5 million in FY 2014-15.

The proposed increase in state funding for the Department is derived from the following adjustments to its itemized appropriations:

- General Government Operations (GGO) – Proposed increase of \$2.5 million, raising its total allocation to \$8.3 million;
- State Parks Operations – Proposed increase of \$13.7 million, raising its total allocation to \$16 million;
- State Forests Operations – Proposed increase of \$5.6 million, raising its total allocation to \$6.7 million;
- Heritage Parks – Proposed program elimination, resulting in a savings of \$2.25 million.

The Governor's proposed increase in total state funding for the Department would enable it to become less reliant on other sources of revenue for its operations. Over the past four years, the Corbett Administration instituted the controversial practice of cutting state funding within the Department (so it could be used elsewhere in budgets) and supplementing it with other sources of revenue, namely the Oil and Gas Lease Fund. In fact, Corbett's final budget in FY 2014-15 utilized a total of \$122.5 million from the Oil and Gas Lease Fund for Department General Government, State Park and State Forest operations, representing more than one-third of its entire budget (as compared to nine percent of its entire budget in FY 2010-11.) Corbett's increased reliance on the Oil and Gas Lease Fund for Department operations was cause for concern. He was not only setting a precedent for the use of these funds that blurred their original intent and purpose, but he had also begun spending more than the fund was generating in revenue.

However, Governor Wolf's proposed infusion of new state spending for the Department allows it to begin shifting away from its reliance on the Oil and Gas Lease Fund. For FY 2015-16, a total of \$117 million will be transferred from the Fund to the Department, a decrease of \$5.5 million over FY 2014-15, the first reduction after years of significant increases. In addition to the \$117 million, the Fund will also transfer \$35 million to the Marcellus Legacy Fund (for various conservation measures) and \$5 million to the Hazardous Sites Clean-Up Fund as part of ACT 13 of 2012.

Finally, the Department will continue to receive its traditional allocation from the Key 93 Fund under the Governor's proposal. These funds are used by the Department for state park and forest lands rehabilitation, repairs and upgrades of facilities and for land acquisition. The Department is proposed to

receive \$51 million from the Fund in FY 2015-16, which represents an increase of \$2.6 million over FY 2014-15.

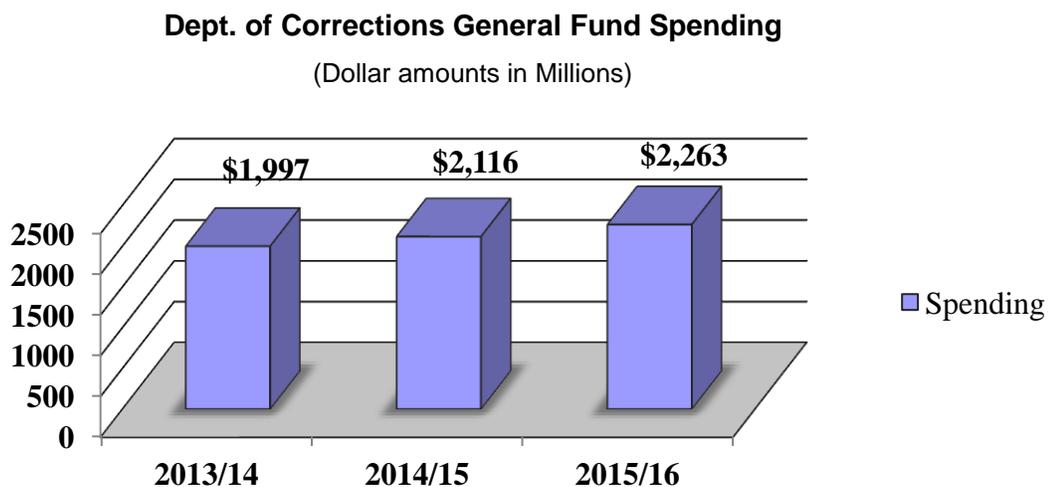
## Corrections - Probation and Parole

The Department of Corrections and Board of Probation and Parole share a common vision: to ensure public safety by successfully reintegrating offenders into the community. As such, the Governor’s budget proposes to consolidate the two agencies, as is done in most states throughout the nation, to eliminate duplicative administrative oversight as well as to provide for better outcomes. However, the Board itself would remain an independent decision making body with sole parole granting authority.

A unified approach resulting from the merger would provide a more seamless transition from facility to the community for offenders and help to reduce recidivism rates, ultimately resulting in lower crime rates and a safer state. What’s more, the proposed merger has the potential to generate significant savings from an administrative standpoint and also from an “outcome” standpoint, as the parole process is made more efficient and offenders are released into supervision and their communities at a quicker pace (in reference to the current parole backlog). These savings would be in addition to those anticipated from the Justice Reinvestment Initiative (JRI) as well as from recommended sentencing reform, both of which will be touched on further below. However, no savings are anticipated from the merger in FY 2015-16 as it would take place at the end of the fiscal year. As a result, funding for the two agencies remains separated as follows:

### Department of Corrections

In the Governor’s proposed FY 2015-16 budget, state spending for the Department of Corrections (DOC) is increased to \$2.263 billion. When compared to FY 2014-15 funding levels, this represents an increase of \$146.9 million, or 7%. The majority of this increase is dedicated to personnel line items within the Department for rising pension and benefit obligations, including its State Correctional Institutional appropriation (\$111.3 million increase over FY 2014-15, \$104 million of which is needed to continue the current program).



### State Correctional Institutions (SCI) and Community Correction Centers

As of December 2014, the commonwealth’s total residential population stood at 53,738. Of this population, the commonwealth had jurisdiction over 50,756 inmates, with 48,881 housed throughout the State’s 26 institutions and the remainder in Community Correction Centers and other jurisdictions. Year-over-year (Dec. 2013 – Dec. 2014), PA’s total jurisdictional population declined by 756 inmates. The decline of the SCI population was even greater, dropping by almost 1,000 inmates, the first decrease after consecutive years of skyrocketing growth. What’s more, the state’s total jurisdictional

overcapacity shrunk from roughly 4,500 inmates in December 2013 to approximately 3,700 inmates as of December 2014.

After some delay in its initial implementation, the numbers above indicate that the JRI is beginning to make some headway in reducing the size of PA's inmate population. However, the initiative is only a little more than year and a half into its full implementation (signed into law in 2012 and some of its measures were not fully into effect until mid 2013) and the Department said it would take five years (2017) to realize substantial results. Still, more can and should be done to reign in the growing costs of the commonwealth's correctional system. While the Governor's proposed merger of the DOC and Board of Probation and Parole will provide a mechanism to help drive down spending, Senate Democrats have also identified cost saving measures to implement, not the least of which is sentencing reform.

Addressing sentencing reform, specifically the constructive revision of mandatory minimums, is a proven approach that, in conjunction with the JRI, can further help to reduce the size of the commonwealth's prison population without jeopardizing public safety. States like New York and Texas have employed this approach and have reduced their prison populations and crime rates at the same time. New federal drug sentencing reforms were also implemented in November 2014 and are expected to have a similar effect on the federal prison population. Pennsylvania can benefit from this approach. For far too long, mandatory minimums have swelled its prisons with too many first-time, low-risk offenders. These sentences neither serve to rehabilitate non-violent offenders nor make the commonwealth a safer place. As such, Senate Democrats believe it is time to revisit the issue of mandatory minimum sentencing in the state for the sake of the offender, the taxpayer, and the commonwealth as a whole.

## **Medical**

Roughly \$31.8 million of the total increase in state funding for the Department (the \$146.9 million increase referenced above) is dedicated for Inmate Medical Care, raising its total level to \$260.9 million in FY 2015-16. Included within this increase is \$9.4 million to continue the current program, \$3.6 million to provide enhanced treatment for inmates with serious mental illnesses, \$750,000 for the transfer of inmates from SCI Graterford to SCI Phoenix, and \$18 million in nonrecurring pharmaceutical rebates provided through the Special Pharmaceutical Benefits Program to mitigate the costs of AIDS medication for inmates.

## ***Board of Probation and Parole***

### **Background**

The primary mission of the Board is to protect the safety of the public through the rehabilitation of persons on probation or parole, with the ultimate goal of helping these individuals successfully reintegrate into society. Probationers are offenders whom courts place on community supervision generally in lieu of incarceration; whereas parolees are individuals conditionally released to community supervision whether by a parole board decision or by a mandatory conditional release after serving a prison term. Parolees run the risk of being returned to prison for rule violations or other offenses.

At the end of the 2013-14 fiscal year, the total supervised population of the Board stood at 39,726, an increase of roughly 1,750 probationers and parolees year-over-year. The Board expects this growth to continue, with the total population projected to reach 41,475 by the end of FY 2014-15, and 42,325 by the end of FY 2015-16. These increases are an encouraging sign for the commonwealth, being that a primary component of the JRI was to divert more offenders from prison and place them into other less expensive forms of supervision, such as probation or parole.

### **FY 2015/2016 Budget**

In the FY 2015-2016 budget proposal, total state funding for the Board is increased to \$172.4 million, up \$16.1 million, or 10.3%, over FY 2014-15. The majority of this increase is dedicated to the Board's

General Government Operations, which is proposed to receive \$148 million in FY 2015-16, \$13.3 million more than its FY 2014-15 level. Roughly \$11 million of this increase is needed to continue the current operations of the Board, with the remainder slated for new supervision and recidivism initiatives.

Funding for the Sexual Offenders Assessment Board is proposed to increase by \$387,000 in FY 2015-16, to a total of \$5.8 million. The primary responsibility of the Sexual Offenders Assessment Board is to conduct court ordered assessments of convicted sex offenders which help to classify the offender based on the nature of their crime. The proposed increase of \$387,000 is needed to continue the current operations of the Sexual Offenders Assessment Board.

The Governor's budget also proposes an additional \$2.3 million for the Board's Improvement of Adult Probation Services line item, raising its total to \$18.5 million. This proposed increase would provide additional grant funding to counties to support adult probation personnel costs.

Finally, the estimated State Supervision Fee Collections for FY 2015-16 are \$3.806 million, identical to their level in FY 2014-15.

## Drug and Alcohol Programs

The mission of the Department of Drug and Alcohol programs is to engage, coordinate and lead the commonwealth of Pennsylvania's effort to prevent and reduce drug, alcohol and gambling addiction and abuse; and to promote recovery, thereby reducing the human and economic impact of the disease.

**Drug and Alcohol Abuse Prevention and Treatment services** have been provided through the counties for Pennsylvanians who do not have insurance or resources to pay for treatment. Single County Authorities (SCAs) prepare department-approved prevention, intervention and treatment plans tailored to the needs of their respective geographic areas.

Act 50 of 2010 mandated the transfer of this program to a newly created Department of Drug and Alcohol Programs effective July 1, 2011. The enacted 2011/12 budget did not create a separate department, as required in the Act. Instead, it merely took \$1 million out of the appropriation for D&A treatment and included a new appropriation entitled "transition to the Department of Drug and Alcohol Programs." The 2012/13 budget transferred all operations and funding previously under the Bureau of Drug and Alcohol Programs in the Dept. of Health to the new department.

Under Act 1 of 2010 (amending the Pennsylvania Race Horse Development and Gaming Act), \$3 million annually is transferred from the Gaming Fund to the Compulsive Gambling Treatment Fund. These funds are distributed to the SCAs solely for financing drug and alcohol addiction assessments, including those associated with or related to compulsive and problem gambling, and for the related addiction treatment in non-hospital residential detoxification facilities, non-hospital residential rehabilitation facilities and halfway houses licensed to provide addiction treatment services. These funds and administration thereof thus fall under the new department as well.

The governor's 2015-16 proposed budget includes an additional **\$5 million to provide additional services to address heroin and opioid addiction**. With this investment, state funding for the **Assistance to Drug and Alcohol Programs** appropriation will be at its highest level ever.

## Education

Governor Wolf's budget for education reflects the strong belief that adequate funding of public schools is necessary to ensure that students learn the skills they need to help move the state's economy forward. The proposed budget includes an additional \$1 billion across all sectors of education – pre-k through college. The proposed Pennsylvania Education Reinvestment Act calls for a 5 percent severance tax on the value of natural gas at the wellhead plus 4.7 cents per thousand cubic feet of extracted gas. The Governor predicts it will raise \$1 billion in revenue and proposes that the lion's share go to education. Proposed funding for 2015-16 is the first phase in a four year goal to increase investment in pre-k to 12<sup>th</sup> grade education by \$2 billion.

## ***K-12 Education Programs***

### **Basic Education Funding and Charter Schools**

Following the decimation of classroom funding by the Corbett Administration, Governor Wolf's "Schools that Teach" agenda includes an additional \$400 million or 7 percent increase in Basic Education Funding which fully restores the Accountability Block Grant and Educational Assistance Program, previously reduced and in the case of the tutoring program, eliminated. Included in the proposal is a reimbursement to school districts of 10 percent of the cost for each student who is attending a charter school.

As charter enrollments continue to grow, charter tuition payments are causing a huge financial drain for many districts. Collectively, school districts spend more than \$1.4 billion on tuition reimbursement to charter schools. The Governor's plan includes a required annual reconciliation for all charter schools which would result in a refund of money to the sending school districts if the charter's expenditures are less than their tuition revenue.

Governor Wolf's education agenda includes a proposal to rein in the costs of cyber charter school tuition paid by school districts, by making the payments more reflective of the cost of cyber education. School districts spent \$421 million on mandatory cyber charter tuition payments in 2013-14. The proposal sets the maximum reimbursement rate for non-special education students at \$5,950 (adjusted annually for inflation) which is based on the highest cost of several high quality on-line programs offered by Intermediate Units, plus an add-on of 10 percent for reasonable administrative and overhead costs. This is estimated to save school districts \$160 million. For special education tuition, the budget would apply the formula recommended by the Special Education Funding Commission, adding \$3,035 for students identified as Category 1; \$16,482 for Category 2 students; and \$38,437 for Category 3 students.

The Governor's budget emphasizes accountability for school district expenditures of state funding. Those districts that receive significant increases of state support will be required to invest in their choice of evidence based programs, as well as restore program and personnel cuts that were forced by the reduction in funding over the past four years.

### **Property Tax Relief**

Local property taxes continue to be the one tax source markedly higher than in most states. Comparatively low state support for local school districts has forced local communities to be overly reliant on property taxes to fund their schools. This has created a highly inequitable funding structure with significantly differing amounts of school district expenditures per student among Pennsylvania's 67 counties. Poorer urban school districts face an eroding tax base for local funding support for schools and often spend less than half that of their suburban neighbors. Governor Wolf's \$3.8 billion school district property tax relief plan would move the level of state aid to school districts from currently 33 percent, to over 50 percent in 2015-16.

### **Special Education**

The Special Education appropriation is increased by \$100 million or almost 10 percent in the Governor's proposal. Special Education funding provides support for programs in the commonwealth's public schools serving students with disabilities. These programs are administered by all 500 school districts, and charter schools where appropriate. The distribution formula for this \$100 million will be based on the Special Education Commission's recommendations of three cost categories of students.

Funding for the Chartered Schools for the Deaf and Blind would receive a modest increase of 2.3 percent or \$972,000. The Approved Private Schools would also receive a slight increase of \$2.3 million or 2.4 percent.

## **Other Line Items**

There are three line items for Nonpublic Schools. Specifically, Services to Nonpublic Schools and Textbooks and Materials would receive an increase in state support of 7 percent under the Governor's plan. Transportation for Nonpublic and Charter Schools would receive an increase of \$1.4 million to fund rising costs.

The Teacher Professional Development appropriation would increase \$1 million to provide funds for curriculum development and other technical assistance for financially distressed school districts. The PA Assessment line is level funded to support existing state and federally mandated tests.

The proposed budget does not include any increase for PLANCON building projects. The current year's budget included an additional \$10 million for school construction projects, although the increase did little to resolve the current backlog in school construction projects. The Department recently indicated that \$105 million was needed to move "G" level projects into the reimbursement "H" level. The Department is conducting a facilities study to determine differing needs in light of new hybrid learning models.

## ***Early Childhood Programs***

Currently, just 18.9 percent of Pennsylvania's 3 and 4 year olds, or only 1 in 6 children, have access to high-quality, publicly funded pre-k programs. The Governor's plan makes significant investments in those Early Childhood Education programs funded in PDE. The budget recommends doubling the funding in PDE for the Pre-K Counts program by \$100 million, to begin the move towards universal access to high-quality early learning. Pre-K Counts provides funding for early childhood learning, focusing on at-risk students.

The increased investment in Pre-K Counts and Head Start Supplemental Assistance would create more than 14,000 additional slots. Head Start expands pre-k services to eligible children with family incomes up to 130 percent of the federal poverty guidelines and would receive a \$20 million increase (51 percent) under the Governor's plan. The Governor recommends level funding for Early Intervention which provides services and support for children with developmental delays.

## ***Other Education Programs***

### **Career and Technical Education**

Career and Technical Education is clearly a priority for the new Administration. Governor Wolf believes that preparing for high-skill careers must begin in as early as middle school. This budget proposal includes an additional \$15 million to support the establishment or enhancement of programs that prepare students for high-skill careers. School districts, Career and Technical Centers, higher education institutions, employers and labor organizations would be able to establish public-private partnerships to train students for high-demand high-growth occupations, while students will earn college credit and industry credentials. Approximately 30 grants of up to \$500,000 each would be awarded with at least one in each Workforce Investment Area. In addition, the budget proposes \$8 million to school districts to offer college and career counseling in middle school and high schools. A \$2 million increase from \$3 million to \$5 million is included for CTE Equipment Grants.

Adult and Family Literacy Programs are increased almost \$5 million or 38 percent, for job linked programs that build on both literacy and employment skills.

### **Library Services**

The Public Library Subsidy would remain at its current level of funding. The library subsidy supports more than 600 library facilities and 29 district library centers across the commonwealth. In addition, Key '93 monies for library rehabilitation and development projects, totaling \$3.1million will be available.

## ***Higher Education***

Governor Wolf's proposed budget reinvests in higher education and commits to fully restore the monumental cuts that exceed \$275 million, imposed by the prior Administration, to colleges and universities over the next two years. The 2015-16 budget devotes significant resources with the goals of improving college completion rates, boosting innovation and strengthening alignment with real world economic opportunities and the needs of employers.

### **Community Colleges**

The proposed budget includes an increase of \$15.1 million (7 percent) to community colleges, which represents a 75 percent restoration in funding cuts since 2011. The Governor has called on the community colleges to freeze tuition for the next academic year.

Funding for capital projects and for Regional Community College Services would be held at current year levels. A portion of the Regional Services appropriation is allocated for Allegany College of Maryland which serves students in Bedford and Somerset Counties.

### **Thaddeus Stevens College of Technology**

Thaddeus Stevens College of Technology provides two year technical education programs on a tuition basis and at no cost for financially disadvantaged students. The proposed budget includes an increase of \$863,000 or 7 percent.

### **State System of Higher Education**

The proposed budget for PASSHE includes an 11 percent increase in funding or an additional \$45.3 million. This represents a 50 percent restoration in funding cuts made to the System since 2011. The Governor has called on PASSHE to freeze tuition for the next academic year. Funding is distributed through the Chancellor's Office to 14 individual universities in accordance with a formula that considers the enrollment and programs of the school and the cost of operating and maintaining the individual campuses.

The budget proposal includes \$14.1 million for PASSHE's share of the Keystone Recreation, Park and Conservation Fund, used for deferred maintenance projects.

### **State Related Universities**

The proposed budget for the Pennsylvania State University, University of Pittsburgh, Temple University and Lincoln University invests significant increases for the four state-related universities which play critical roles in research, innovation and invention. The budget provides \$80.9 million in increased funding. This increase equates to an approximate 45 percent restoration in funding cuts made to the institutions since 2011. In return for this investment in state dollars, Governor Wolf has called upon the institutions to keep any necessary tuition increases to a modest COLA.

### **Pennsylvania Higher Education Assistance Agency (PHEAA)**

The Pennsylvania Higher Education Assistance Agency (PHEAA) provides grants, scholarships, loan forgiveness, and other financial assistance to students and higher education institutions.

#### **Grants to Students**

The Grants to Students appropriation comprises the largest portion of the PHEAA state appropriation. The Governor has recommended no increase in current state funding of \$344.88 million. Additionally, PHEAA will again be asked to direct \$85 million from its business earnings to supplement the State Grant Program and to fund an on-going pilot program for Distance Education which provides grant awards to online students at participating institutions.

For 2014-15, the maximum grant amount is \$4,011. PHEAA is projecting a modest carry forward into 2015-16 and therefore the maximum grant will realize a slight increase. The average state grant amount is currently \$2,869. The grant amount as a percentage of tuition and fees continues to slowly decline and is estimated to be 14.9 percent with the PHEAA supplement and 11.6 percent when looking at only the state appropriation for 2014-15.

For 2015-16, PHEAA expects to have a carry forward due to shifting demographics within the program and therefore the maximum award will increase to approximately \$4,368. The average award is estimated to be \$3,266. The purchasing power will result in 15.8 percent with the PHEAA supplemental or 13.0 percent when recognizing the state appropriation only.

### **Ready to Succeed Scholarships**

The budget proposes an increase of \$10 million, from \$5 million to \$15 million, for Ready to Succeed Scholarships available for middle income students to pursue two-year or four-year post-secondary degrees at any Pennsylvania college, university or technical school. Middle income is defined as family incomes up to \$110,000. These grants are available to the recipient through the two or four years to degree completion.

### **Targeted Industry Cluster Scholarship Program**

The Targeted Industry Cluster Certification Scholarship Program provides grants to students enrolling in targeted industry certification programs that are less than 2 years. Grants to students seeking skills/trade certification in programs of study that train individuals for areas of immediate workforce need (this would include union apprenticeship programs) will be made. Students in programs that are less than 24 months are currently not eligible for financial aid through PHEAA and most other federal programs. The Governor's proposal would increase funding for the program from \$6 million to \$7 million with funding provided from PHEAA business earnings.

### **Institutional Assistance Grants**

The Institutional Assistance Grants line, which provides assistances to higher education institutions that do not receive other state funds, would receive an increase of \$5 million (21 percent). The goal is to make college more affordable on behalf of students who qualify for PHEAA state grants. Thirty three institutions receive this allocation based upon the total number of eligible grant recipients enrolled. It is expected that in 2015-16 per capita grant amount would be \$650 under this proposal.

### **Bond Hill Scholarships**

The proposed budget provides a \$466,000 (87 percent) increase for scholarships for graduates of Lincoln and Cheyney Universities who pursue graduate and professional degree programs at state-related institutions.

### **Cheney Keystone Academy**

The proposed budget provides a \$475,000 (31 percent) increase for grants to offset tuition, mandatory fees, books and supplies and living expenses for gifted students who attend Cheyney University.

### **STEM Scholarships Initiative**

The Governor is recommending \$7.5 million, funded from PHEAA earnings, to enhance incentives for students to pursue careers in fast-growing Science, Technology, Engineering and Math fields.

### **Loan Forgiveness for Primary Care Physicians**

The proposed budget includes \$8.5 million, funded from PHEAA earnings, to support current grant recipients and to expand the state's successful loan forgiveness program to recruit and retain doctors to work in medically underserved areas.

## **Dual Enrollment Grant Programs**

The budget recommends \$9 million, funded from PHEAA earnings, to re-establish the Dual Enrollment Grant Program, which pays the cost of tuition, textbooks and other expenses so that high school students can enroll in college classes.

## **PA Emergency Management Agency**

Despite an increase of \$1.4 million to General Government Operations for increased health care and pension costs, PEMA will see an overall cut of almost \$2 million in General Fund spending in 2015-16. PEMA will also need \$1.234 million in non-recurring funding to cover the costs of the move to their new headquarters. The proposal eliminates the new programs for Search and Rescue and the Local Municipal Emergency Relief lines, for a total savings of \$3.25 million. The matching funds for Hurricane Sandy have also been eliminated from the 2015-16 budget.

Despite being cut in most past proposed budgets, the Red Cross Extended Care line is currently slated to be level-funded at \$150,000. Prior Governor's have proposed to eliminate this funding, but it has always been restored in the final product.

The biggest challenge for PEMA in the coming months will be re-authorizing the 911 tax that was extended for one year, ending on June 30, 2015. The current tax is \$1 per month on cell phones and land lines, but that misses prepaid cell phones and internet based devices that also make calls. PEMA hopes to extend the tax and work towards statewide efficiencies in the 911 system, without effecting response time.

PEMA will receive \$25 million from the State Gaming Fund and \$5 million from the Property Tax Relief Fund, both via Executive Authorization. This \$30 million funds the grant program for emergency services. The Office of the State Fire Commissioner is slated for a small increase to just over \$2 million.

## **Environmental Protection**

The proposed funding for the Department of Environmental Protection (DEP) is a break with the recent past. The Governor proposes increasing most of the appropriations within DEP. These increases will, for the most part, put the Department back where it was in late 1990's as far as resources are concerned.

The general government of DEP is increased to \$13.4 million, \$1 million more than was appropriated in FY 2014-15. The appropriation has had a 20 percent decrease over the last 5 years.

Environmental Program Management is slated for an increase of 4 percent or \$1.2 million. Over the previous four years, Environmental Program Management has suffered a 14 percent reduction in funds.

Environmental Protection Operations, which is the third major administrative line item in DEP's budget, is slated for a 6 percent increase of \$5 million which places its funding level back to where it was in the 2006-07 fiscal year.

## **General Services**

The Department of General Services provides essential functions for commonwealth operations, such as procurement of goods and services, oversight of the vehicle fleet, management of state property and facilities and construction of the commonwealth's buildings and non-highway infrastructure.

The proposed budget reflects necessary increases in personnel, operations and other related costs.

# Health

The **Department of Health** works with providers and consumers to assess, analyze and report on health threats; assure the quality and availability of health care services; support health care research; and promote healthy behavior. These activities fall into five program areas: health support services, health research, preventive health, health treatment services, and drug and alcohol prevention and treatment.

## ***Health Support Services***

The program area of Health Support Services includes funding for the administrative and technical systems that support disease prevention and treatment. Also included in this program are quality assurance activities and operation of state laboratory facilities. Appropriations funded under Health Support Services include: General Government Operations, Quality Assurance, and State Laboratory operations.

- Gov. Wolf's 2015-16 proposed budget includes \$100,000 under General Government Operations to develop a **statewide registry to monitor the health of individuals who reside near natural gas fracking operations**.
- The proposed 2015-16 budget includes \$2.147 million to meet the requirements of Act 191 of 2014 (**Achieving Better Care by Monitoring All Prescriptions Program**).

## ***Health Research***

The program area of **Health Research** includes funding for the data collection of vital statistics, research programs addressing health disparities, and research grants awarded through Commonwealth Universal Research Enhancement (CURE) program, which was established under the Tobacco Settlement Act, Act 77 of 2001. State general fund appropriations funded under Health Research include: Vital Statistics, Diabetes Programs, Regional Cancer Institutes, and Biotechnology Research.

- The 2015-16 proposed budget eliminates funding for **Diabetes Programs** and **Bio-technology Research** and reduces funding for **Regional Cancer Institutes**. Historically, this funding has been restored by the General Assembly.

## ***Preventive Health***

The department also provides programs in the area of **Preventive Health**. Activities include the oversight of the federal Women, Infants, and Children (WIC) program; other children's programs such as immunizations, child lead poisoning, and school health; and other health promotion and disease and injury prevention programs. This program area also includes funding for state health care centers and qualifying local health departments.

State general fund appropriations funded under Preventive Health include: Chronic Care Management, State Health Care Centers, Sexually Transmitted Disease Screening and Treatment, Primary Health Care Practitioner, Community Based Health Care Subsidy, Newborn Screening, Cancer Screening Services, AIDS programs and Special Pharmaceutical Services, School District Health Services, Local Health Department funding, Maternal and Child Health, Tuberculosis Screening and Treatment and Epilepsy Support.

- Gov. Wolf's proposed budget includes \$3 million under Chronic Care Management to develop a **State Health Care Innovation Plan** for a multi payer payment and health delivery system transformation.
- The proposed 2015-16 budget includes \$3.85 million to **re-establish state health care centers targeted for closure under Gov. Corbett**.
- The budget proposal reflects the **transfer of the loan repayment program under the Primary Health Care Practitioner appropriation to the PA Higher Education Assistance Agency**

**(PHEAA).** The proposal asks PHEAA to use money from its reserves to fund and boost the program.

- The proposed budget includes an additional \$1.45 million for **newborn screening services** to reflect recently enacted legislation.
- The 2015-16 proposal eliminates funding for **Epilepsy Support Services**. Historically, this funding has been restored by the General Assembly.

## **Health Treatment Services**

Under **Health Treatment Services**, the department provides coordination of a variety of specialized inpatient and outpatient medical services for Pennsylvanians. The department also pays for these services in cases where all other available resources, including Medical Assistance and the Children's Health Insurance Program (CHIP) have been used.

Appropriations funded under Health Treatment Services include: Renal Dialysis treatment, Services to Children with Special Needs, Adult Cystic Fibrosis and other chronic respiratory illnesses, Cooley's Anemia, Hemophilia, Lupus, Sickle Cell, Regional Poison Control Centers, Trauma Programs Coordination, Tourette Syndrome and Amyotrophic Lateral Sclerosis Support Services.

- The proposed budget includes \$621,000 in additional funds to meet program needs in the **Renal Dialysis** program.

The budget proposal reduces funding for **Adult Cystic Fibrosis, Hemophilia and Sickle Cell** programs. Additionally, the proposal eliminates funding for **Lupus, Regional Poison Control Centers, Trauma Prevention, Tourette Syndrome and Amyotrophic Lateral Sclerosis Support Services**. Historically, this funding has been restored by the General Assembly.

## **Historical and Museum Commission**

The Pennsylvania Historical and Museum Commission is responsible for:

- conservation of Pennsylvania's historical and natural heritage;
- preservation of public records, historic documents and objects of historic interest;
- identification, restoration and preservation of architecturally and historically significant sites and structures.

Fourteen sites are managed by the Bureau of Historic Sites and Museums. Twenty six are operated by partner organizations or "friends" groups but they remain the property of the Commonwealth and a stewardship responsibility of PHMC. PHMC is also responsible for the William Penn Memorial (State) Museum and State Archives in the Capital Complex.

The proposed budget includes an increase of 3.3 percent or \$625,000 for general operations to primarily cover the rise in pension and benefit costs. Level funding of \$2 million is proposed for the Museum Assistance Program which provides financial assistance to eligible museums and official county historical societies.

The proposal also includes a slight increase of \$534,000 from the Keystone Recreation, Park and Conservation Fund, for the competitive grant program for not-for-profit organizations that operate publicly accessible historic properties.

## **Human Services**

*Editor's Note: The name of Department of Public Welfare (DPW) was changed the Department of Human Services (DHS) effective Nov. 24, 2014.*

The Department of Human Services (DHS) oversees an array of programs geared towards improving the quality of life for the commonwealth's individuals and families in need of support. This large

department accomplishes these goals through eight program areas: Human Services Support, Medical Assistance (Pennsylvania’s Medicaid program), Long-Term Living, Income Maintenance (moving individuals from government support to self-sufficiency), Mental Health, Intellectual Disabilities, Human Services (including child welfare programs) and Child Development.

The budget proposal reflects \$36.01 billion in total department spending, an increase of \$3.878 billion (12.07%) largely due to additional federal funding available. In his mid-year budget briefing, former Secretary Zogby estimated over \$900 million would be needed to continue current programs in DHS. In reality, Gov. Wolf’s 2015-16 budget proposal increases the DHS state General Fund budget by only \$690.827 million (6.16%) over adjusted 2014-15 department expenditures (which includes \$8.662 million in supplemental appropriations). His proposal **responsibly funds the DHS budget while addressing over \$360 million in one-time gimmicks and over \$214 million unsustainable transfers from the Lottery and Tobacco Settlement funds under Corbett**. Additionally, he seeks to maximize available federal funding and other opportunities to provide quality, sustainable programs.

### **Medicaid Expansion**

**Echoing the call of Senate Democrats, Gov. Wolf’s 2015-16 budget proposal continues the move toward comprehensive, quality health care through a traditional Medicaid Expansion model.** By year’s end, DHS hopes to move all eligible patients from the multi-layered, complicated HealthyPA system to a single comprehensive health benefit package delivered in the time-tested Health Choices managed care system. **Medicaid Expansion will result in over \$550 million in state savings over the 2014-15 and 2015-16 fiscal years.**

### **Restoring Cuts to County Human Services**

Gov. Wolf’s 2015-16 budget proposal makes a down payment to restore nearly \$84 million in Corbett cuts to county human services programs over three years, as detailed in the following table:

<b>County Human Services DHS Appropriation Impacted</b> <i>(in thousands)</i>	<b>2012-13</b>	<b>2015-16</b>
	<b>\$ cut</b>	<b>\$ restore</b>
Mental Health Services (portion)	\$54,977	\$18,326
ID - Community Base (portion)	\$14,497	\$4,832
County Child Welfare (portion)	\$4,399	\$1,466
Behavioral Health Services	\$4,791	\$1,597
Homeless Assistance	\$2,055	\$685
Human Services Development Fund	\$1,496	\$499
MA Outpatient (portion)	\$1,473	\$491
<b>TOTAL</b>	<b>\$83,688</b>	<b>\$27,896</b>

### **Administrative Supports**

The 2015-16 proposed budget makes adjustments to reflect necessary personnel, operating and information technology cost projections.

- The proposed budget also appropriates \$3.948 million from the commonwealth’s allocation of federal Child Care Development Fund Block Grant (CCDFBG) to provide for **additional child care inspections** per the requirements of the federal reauthorization.

### **Medical Assistance**

The **MA Capitation** appropriation funds health care services for most MA recipients through managed care organizations (MCOs) in the commonwealth’s Health Choices program utilizing a fixed rate per recipient enrolled. The proposed budget makes adjustments for enrollment projections, actuarially

sound rate increases, federal coverage for General Assistance enrollees under Medicaid Expansion, increased rebate and assessment revenues and the prior year revision to federal financial participation (FMAP). In addition, the proposed budget funds the \$333.464 million delayed payment to MCOs used by Gov. Corbett as a one-time funding gimmick in 2014-15.

Health care services for the remaining MA recipients are provided through a fee-for-service delivery system, including outpatient and inpatient services. The proposed budget **combines the MA Outpatient and MA Inpatient appropriations into a MA Fee for Service appropriation**. The proposed 2015-16 appropriation for MA Fee for Service reflects necessary adjustments to continue the current program and account for caseload growth. In addition, the amount reflects the shift of state funded General Assistance recipients to federal funding under Medicaid Expansion. Last, the proposed budget assumes \$130 million in state savings from revenue enhancement maximization projects (an example of past efforts is the statewide assessment on hospitals).

The proposed budget eliminates supplemental hospital payments for **Obstetric and Neonatal Services, Hospital-Based Burn Centers and Critical Access Hospitals** with the assumption that funding would be made available under the aforementioned revenue enhancement maximization projects. The proposal also reduces the appropriation for **Physician Practice Plans**, which historically has been restored by the General Assembly.

The 2015-16 proposed budget increases funding for **MA Transportation** by \$4.879 million to account for changes in caseload and utilization. Necessary increases in **MA for Workers with Disabilities** for caseload and utilization is offset by additional Tobacco Settlement Funds available to the program in 2015-16.

## ***Long-Term Living***

Gov. Wolf's 2015-16 proposed budget addresses the growing costs in the long term care delivery system while recognizing the best practices of **allowing Pennsylvanians to stay in their communities and out of institutional settings**.

The proposed **Home and Community Based Services (HCBS)** appropriation reflects costs to continue the program (including full year costs prior year expansion), a decrease in available Lottery Funds and other nonrecurring funds. **The governor proposes to provide HCBS to an additional 1,764 older Pennsylvanians** at a cost of \$13.214 million.

Under the **Long-Term Care Managed Care appropriation**, Pennsylvania currently operates the LIFE program (Living Independently for Elders) which provides a wide range of additional supports to manage care for the frail elderly (over age 55). Through a centralized geographic location, the LIFE program provides services such as case management, adult day care, meals, nutritional counseling, and recreational opportunities for clients who would require nursing home care without these supports. Similar to managed care, participating providers receive a set fee per patient to cover the costs of care; providing an incentive to allow patients to remain in their homes as long as possible. The budget proposal reflects costs to continue the program and other nonrecurring funds. **In addition, the governor increases this appropriation by \$1.695 million to provide HCBS to an additional 144 older Pennsylvanians.**

The proposed **Services to Persons with Disabilities** appropriation reflects costs to continue the program and other nonrecurring funds. **In addition, the governor increases this appropriation by \$13.761 million to provide HCBS to an additional 1,140 individuals with disabilities.**

Proposed funding for the **Attendant Care** program reflects costs to continue the program, impacts of administrative/cash flow initiatives and other nonrecurring funds. The governor's proposed budget includes **\$2.359 million to provide HCBS to an additional 324 individuals with disabilities.**

The **Long-Term Care appropriation** provides payment to nursing homes on behalf of eligible recipients receiving resident care services. The proposed budget reflects an increase of \$135.54 million in state General Funds for Long-Term Care largely reflecting Lottery and Tobacco Settlement Funds no

longer available in 2015-16. The proposal does not fund \$8 million in Day One Incentive payments, historically restored by the General Assembly.

## ***Income Maintenance***

DHS operates a variety of programs designed to provide temporary **support to families in transition from government dependency to economic self-sufficiency**. Support may include education, job training and placement assistance, transportation, other support services and cash assistance.

The proposed 2015-16 budget recommends level state funding for the **Cash Grants** appropriation. This appropriation funds monthly cash payments and supportive services allowances (transportation, clothing, etc.) to TANF and State Blind Pension (SBP) recipients. Prior to Aug. 1, 2012, assistance also was provided to General Assistance (GA) recipients. In addition, this appropriation funds certain employment and training programs for TANF recipients. Beginning with the 2007-08 budget, child care supports for TANF and former TANF recipients are funded under the Child Care Assistance appropriation.

The **Supplemental Grants** appropriation provides funding to supplement federal benefits paid to aged, blind and disabled recipients under the Supplemental Security Income program. The proposed budget increases state funding by \$1.613 million to reflect necessary costs to continue the current program.

## ***Mental Health***

The 2015-16 proposed budget increases state funding for **Mental Health Services** by \$55.728 million. This increase reflects costs to continue the program (including full year costs prior year expansion) and other small adjustments. Gov. Wolf also provides \$4.725 million in state funds to provide HCBS for 90 individuals currently residing in state mental hospitals.

Under the **Behavioral Health Services** appropriation, the proposed budget includes \$2.5 million in new state funds to provide additional drug and alcohol treatment services relating to heroin and opioid addiction.

## ***Intellectual Disabilities***

Funding for intellectual disabilities appropriations in the proposed budget largely reflects necessary costs to continue current programs, address settlements and appeals and the availability of federal and other funds. Gov. Wolf also includes the following initiatives:

- \$500,000 to provide additional support to **promote competitive employment opportunities for individuals with intellectual disabilities**.
- \$952,000 to **provide HCBS for 75 individuals with intellectual disabilities currently residing in a state center**.
- \$18.878 million to provide HCBS for 1,000 individuals who are on the **waiting list for the Community Waiver program or are students graduating from Special Education**.
- \$372,000 to provide HCBS for **50 additional adults with autism spectrum disorders**.

## ***Human Services***

The proposed budget includes \$23.878 million in state funds for county-need based budgets as mandated by Act 30 of 1991 under the **County Child Welfare** appropriation. In addition, the proposed budget replaces \$15 million in nonrecurring federal funds used in 2014-15.

Gov. Wolf's 2015-16 proposed budget increases state funding by 10% for **Domestic Violence** (\$1.532 million) and **Rape Crisis** (\$876,000) programs.

In addition to the restoration related to county human services, the proposed budget includes \$1 million in the **Homeless Assistance** appropriation to provide additional services and supports to reduce homelessness for veterans.

## ***Child Development***

The governor's proposed 2015-16 budget recommends level state funding for **Child Care Services** (subsidies for low-income families and Keystone STARS) and **Child Care Assistance** (child care for TANF and former TANF families). However, the budget recommends allocating available federal block grant funds for the following:

- \$17.805 million in federal block grant funds to **provide subsidized child care services for approximately 3,600 additional children.**
- \$11.4 million in federal block grant funds to **provide increased tiered reimbursement rates for STAR 3 and STAR 4 programs** to incentivize providers to reach higher STARS levels.
- \$2 million to **provide increased add-on rates for high-quality infant/toddler care.**

## **Insurance**

The Pennsylvania Insurance Department **regulates the insurance industry and aims to protect consumers in the state.** The department works to: provide consumer service and outreach; eliminate insurance insolvency and fraud; provide access to affordable health insurance coverage; and make insurance pricing more transparent in all lines of business.

The Insurance Department collects fees and fines related to insurance industry regulation, some of which are deposited into the General Fund and others are redirected to the **Insurance Regulation and Oversight Fund.** The proposed budget includes \$24.269 million through that special fund to be used for department **general government operations** - - an increase of \$1.427 million (6.25%).

## ***Children's Health Insurance Program (CHIP)***

**The Children's Health Insurance Program (CHIP)** provides health care to children of low-income families who earn too much to qualify for Medicaid benefits, but not enough to purchase private insurance. Depending upon family income, children (up to age 19) receive either free or subsidized health insurance under CHIP.

Funding for the program is shared between the state and federal government, with the federal government providing federal State Children's Health Insurance Program (SCHIP) block grant funds to match state spending. Also, in the subsidized portion of the program, participating families contribute a portion of the monthly premium calculated on a sliding scale, based on income.

Pennsylvania receives federal matching dollars for every state dollar spent on enrollees with household incomes under 300 percent of the federal poverty level. The base federal match amount is roughly 66.27 cents for every state dollar spent. Beginning in October 2015, the Affordable Care Act (ACA) provides for an enhanced CHIP federal match of an additional 23 cents per state dollar spent. The enhanced match will continue through Sept. 30, 2019. Note that the separate federal statute overseeing the federal CHIP program awaits reauthorization by Congress.

In addition to the annual General Fund appropriation, state funds also include a dedicated stream of cigarette tax revenue fixed at \$30.73 million annually per statute (Section 1296 of Tax Reform Code). Generally, CHIP utilizes the General Fund appropriation and federal dollars first, prior to using the dedicated cigarette tax revenue. This has created surpluses within the restricted account during some fiscal years which could then be used in future budgets.

Under the ACA, children ages 6-19 with household incomes 100-133% of the federal poverty level are now eligible for traditional Medicaid. This represents a small number of children traditionally enrolled in CHIP that now will be served Medicaid program. Note that the interim final rule (IFR) published March 23, 2012 provides that a state may claim the enhanced SCHIP match for those children currently in the state's CHIP moving to the Medicaid benefit (instead of the lower traditional Medicaid federal match).

Gov. Wolf's 2015-16 budget proposal includes sufficient total funding to **cover an additional 15,881 children through CHIP**. By adjusting the base 2014-15 appropriation to reflect current caseloads, using all available dedicated cigarette tax revenue and adjusting for a higher federal match per the ACA, the commonwealth is able to reduce its state General Fund spending in the program by \$83.685 million and still serve additional children.

## Labor and Industry

After four years of abysmal job growth under the Corbett Administration (dead last in the nation as of Dec. 2014) and a jobs deficit of 278,000 when compared to national growth, the proposed budget provides a much needed infusion of new funding to one of the commonwealth's lead employment agencies, the Department of Labor and Industry. Total state funding for the Department is proposed at \$85.87 million in fiscal year (FY) 2015-16, up \$14.5 million over FY 2014-15, almost fully restoring it to its level of \$89 million in FY 2009-10, prior to Corbett budget cuts when PA ranked 10<sup>th</sup> in the nation in job creation.

Included in the Department's overall funding increase is significant new spending for its Industry Partnerships (IPs) and Vocational Rehabilitation (VR) appropriations, both of which are tied in with the Governor's overall plan to boost job growth in the commonwealth. The VR appropriation, designed to help persons with disabilities prepare for, obtain and maintain employment, is increased by \$5 million to \$45.47 million. This increase will allow the state to leverage an additional \$18.5 million in federal matching funds to support VR services. Additionally, \$9.8 million in new state funding is proposed for the IPs program, raising its total allocation to \$11.61 million. IPs enable industries with similar products/markets to come together to identify their common skill needs and develop training programs to meet those needs. The additional funding for IPs, in conjunction with additional funding for other training and literacy programs through DCED and PDE, will not only help Pennsylvanians gain targeted skills to compete in the workforce, but will also help strengthen the industries seeking their employment.

In addition to the increases for the employment related items above, the Governor's budget also proposes to raise Pennsylvania's minimum wage from \$7.25/hour to \$10.10/hour and tie it to inflation to maintain its purchasing power over time. Raising the commonwealth's minimum wage makes political and economic sense. Poll after poll has indicated that a majority of Pennsylvanians support doing so. And why wouldn't they? Raising PA's minimum wage to \$10.10/hour would put more money in the pockets of 1.27 million hardworking Pennsylvanian's, stimulate economic activity, increase tax revenue, and decrease reliance on government assistance programs.

Six hundred economists, seven of the Nobel Prize winners, have signed a letter of support for raising the federal minimum wage to \$10.10/hour by 2016 (PA's minimum wage would automatically increase to the federal rate if increased). What's more, a review of 64 studies on minimum wage increases found no discernible effect on employment, discrediting opponents who claim doing so will cost jobs and hurt the economy. In fact, raising the minimum wage to \$10.10/hour would actually create more jobs (6,000 according to the Keystone Research Center) through increased consumption from middle/low-income families at local businesses. All of PA's neighboring states have embraced the benefits of raising their minimum wages as discussed above, with each one increasing their rates above the current federal minimum of \$7.25/hour.

Lastly, the Governor's budget also contains two other notable changes concerning the Department. Funding for the Centers for Independent Living (CILs) is increased by \$400,000 over FY 2014-15 and the New Choices/New Options program is proposed to be eliminated. The CILs provide services for the severely disabled that help to enable them to live independently in the community. The proposed

increase of \$400,000 would raise the CILs appropriation to \$2.3 million in FY 2015-16 and increase the level of support to the nine regionally distributed centers throughout the commonwealth. The New Choices/New Options line item assists in providing career and personal development strategies for displaced homemakers, low-income single parents and the unemployed in an effort to help them find employment and achieve economic self-sufficiency. The proposed elimination of this program would result in \$500,000 in savings over FY 2014-15.

## **Military and Veterans' Affairs**

As more Pennsylvanians finish deployments with the PA National Guard and Reserves or retire to Pennsylvania after serving the military in an active duty capacity, the Department of Military and Veterans Affairs needs more resources to serve our veterans. Governor Wolf's proposal includes an increase in General Government Operations of just over \$2 million. Most of this is due to increased health care and pension costs. \$900,000 of the increase will go to an initiative to enhance the Veterans Case Management system.

The biggest single increase in General Fund spending for DMVA is the line for Veterans Homes. Current operations will need an additional \$8.3 million and an additional \$1.5 million will go to re-open a skilled nursing unit in the Southeastern Veterans Center.

Most of the line items in the department will be level funded from the current fiscal year. There is an additional \$500,000 for the Education of Veterans Children and an additional \$300,000 for the Paralyzed Veterans Pension. The Civil Air Patrol line is not slated to receive any funding again in 2015-16 and there is a cut of \$850,000 in Veterans Outreach Services. This line funds a grant program for organizations such as the American Legion and Veterans of Foreign Wars.

## **Revenue**

The Department of Revenue receives only a small increase of \$378,000 in its general government appropriation. Last year the Department received a much heftier \$9.2 million to beef up their tax collecting operations. This budget maintains those beefed up efforts. The Department's long term upgrade of its mainframe computer is nearing completion and this year's amount reflects this by decreasing by \$1.5 million to \$6.5 million.

## **State**

The Department of State receives the bulk of its funding through appropriations from restricted revenue accounts, which are funded through various registration and licensing fees.

Due to increased costs for health care and pensions, there is a slight increase to the Department's General Government Operations. There is also a small increase to the Lobbying Disclosure line item. It is however, still less than the funding that was allocated in 2013-14. This funding comes from an increase in the Lobbying Disclosure registration fee, which went into effect on January 1, 2015.

The 2014-15 Budget included \$2.2 million in funding for the advertising of constitutional amendments. As the General Assembly considers several constitutional amendments, the Governor has proposed \$2.7 million for publishing constitutional amendments in the upcoming fiscal year.

The lines for Voter Registration and Education, Statewide Uniform Registry of Electors, Voting of Citizens in Military Service, and County Election Expenses are all level funded. The previous administration wasted most of the funding for Voter Registration and Education on a misleading PR campaign on the ill-considered and ultimately over-turned Voter ID program.

## **State Police**

The State Police have primary police jurisdiction in 82% of the commonwealth's land area while providing assistance to a variety of local, state and federal entities. Due to this mission, the administration is seeking an increase of \$77 million in General Government Operations. \$9 million of that will go to fund four new cadet classes, for a total of 350 new troopers. The majority of the increase will be borne by the funding PSP receives from the Motor License Fund. This is largely due to increased costs for health care and pensions.

Due to increased operating costs, the proposal calls for increases for the line items for Statewide Public Safety Radio System, Law Enforcement Information Technology, Municipal Police Training, Gun Checks, Patrol Vehicles, and Commercial Vehicles Inspection.

Of note in the Governor's 2015-16 FY proposed budget is the elimination of the Forensic Laboratory Support line item, which was funded at \$1.5 million in the current year budget. This was also slated for elimination in 2015-16, but restored in the final product. The administration says this support will now be funded through the DNA Detection Fund.

As part of their role in liquor law enforcement, the State Police will receive \$29.4 million from the State Stores Fund for Liquor Enforcement.

## **Transportation**

### ***Highway Construction and Maintenance***

Pennsylvania has 39,750 miles of roadway to maintain and has the fifth largest state owned roadway network in the nation. Each year PennDot works to repair nearly 4,000 miles of roads. The condition of highways and bridges is monitored on an ongoing basis to ensure safety and to assess needs. Highway pavement conditions on the National Highway System are typically reviewed each year while less traveled routes are evaluated every other year. Based on the funding that was outlined in Act 89 of 2013, the 2015-16 budget will again include the following (includes federal money):

- \$225 million for Highway and Safety Improvements;
- \$220 million for Highway Capital Projects;
- \$860 million for Highway Maintenance

Due to changes made in Act 89, the Department will again transfer \$28 million to the Turnpike Commission through Executive Authorization.

### ***Mass Transit***

Multimodal Transportation provides support for the commonwealth's non-highway infrastructure that includes public transportation, aviation, bicycle, pedestrian, passenger and freight rail, and ports. Improvements and programs for non-highway transportation are funded through various sources.

The Multimodal Transportation Fund provides project funding either through competitive grants or restricted set asides. Revenues deposited into the Multimodal Transportation Fund include payments from the Pennsylvania Turnpike Commission, a portion of certain motor vehicle fees and penalties and, beginning in 2015-16, a portion of the Oil Company Franchise Tax. In 2015-16, the Multimodal Transportation Fund will increase to \$138 million, which includes \$40 million for the statewide grants program.

## **Public Utility Commission**

The Governor has recommended an appropriation from restricted revenues for the Public Utility Commission in a total amount of \$69 million in the budget for Fiscal Year 2015-2016.

The Public Utility Commission regulates approximately 8,000 utilities which provide electricity, natural gas, steam heat, water, wastewater collection and disposal, telephone, transportation of passengers and property by train, bus, truck, taxicab and limousine and transmission of gas and oil by pipeline.

The commission is funded by assessments of public utilities. Public utility assessments and fees are deposited into a restricted account within the General Fund.

As part of the commission’s regular responsibilities, it must implement, on a continuing basis several major laws: Act 201 of 2004, regarding the termination of electric, natural gas and water service; Act 213 of 2004, requiring the inclusion of electricity generated from alternative energy sources in the retail sale of energy to consumers; Act 183, concerning network modernization plans, deployment of high-speed internet service and the reduction of filing and reporting requirements for the Incumbent Local Exchange Carriers; and Act 129 of 2008, regarding the reduction of electricity consumption.

Act 155 of 2014 reauthorized Chapter 14 of Act 201(2004) which primarily delineates guidelines for customer shut offs. The Act also gave the commission the authority to assess administrative costs for the regulation of electric generation suppliers and natural gas suppliers.

The passage of Act 127 of 2011 authorizes the Commission to enforce Federal pipeline safety laws as pertaining to non-public utility gas and hazardous liquids pipeline equipment and facilities within the Commonwealth.

There is a proposed increase of the appropriation from the restricted account for general government operations this is primarily due to pension and healthcare costs.

<b>General Government Operations</b> <i>(Amounts in thousands)</i>	<b>2013-14</b> <b>Actual</b>	<b>2014-15</b> <b>Available</b>	<b>2015-16</b> <b>Budget</b>
General Government Operations	<b>\$63,090</b>	<b>\$64,571</b>	<b>\$69,130</b>
Increase from Restricted Account		<b>\$4,559</b>	

The passage of Act 13, the Unconventional Gas Well Impact Fee, in 2012 added to the Commission’s duties. The Act allows counties to pass ordinances to impose an impact fee on unconventional gas well producers and allows municipalities to adopt resolutions compelling the imposition of fees related to these wells. The Act requires the Commission to administer the collection and disbursement of the impact fee. For the initial year of administration the Commission requested \$250,000 to cover administration costs. This amount was appropriated from the General Fund for fiscal year 2011-12. In subsequent years the Commission receives funding to administer Act 13 (2012) through the authorized assessment of public utilities.

Two funds were created with the passage of Act 13, the Marcellus Legacy Fund and the Unconventional Gas Well Fund. Sixty percent of the revenue of the Unconventional Gas Well Fund is distributed among the participating municipalities. The remaining forty percent of the fees are deposited in the Marcellus Legacy Fund. The revenues of the Marcellus Legacy Fund are used to benefit all counties, not exclusively shale gas counties, for the repair of locally owned at risk bridges, funding of water and sewer projects, hazardous sites cleanup and other similar projects.

	<b>2013-14 Actual</b>	<b>2014-15 Available</b>	<b>2015-16 Proposed Budget</b>
General Fund Total (Restricted & Federal)	\$67,997 (\$63,090 + \$4,907)	\$68,356 (\$64,571 + \$3,785)	\$72,191 (\$69,130 + \$3,061)
Marcellus Legacy Fund	\$87,733	\$99,089	\$104,022
Unconventional Gas Well Fund	\$216,252	\$191,800	\$191,800
<b>Total All funds</b>	<b>\$371,982</b>	<b>\$359,245</b>	<b>\$368,013</b>

(Amounts in thousands)

## Judiciary

The Governor has recommended an appropriation for Judiciary in the amount of \$317.432 million in the budget for FY 2015-16. This represents level funding for the Judiciary as the appropriation for FY 2013-14 was \$317.432 million.

The Commonwealth's Judicial System includes the Supreme Court, Superior Court, Commonwealth Court, Courts of Common Pleas, Philadelphia Municipal Court, Traffic Court of Philadelphia and the Magisterial District Justices (MDJ's). The Administrative Office of Pennsylvania Courts (AOPC) is the administrative arm of the courts. The AOPC provides services for approximately 2100 members of the judiciary and their staff.

The Governor has recommended level funding for the following programs.

- Juror Cost Reimbursement = \$1.118 million
- County Court Reimbursement = \$34.407 million
- Senior Judge Reimbursement = \$1.375 million

<b>Judicial Department</b>	<b>FY 2015-16 Proposed Appropriation</b>
Supreme Court*	\$106,223,000
Superior Court	\$ 27,207,000
Commonwealth Court	\$ 16,536,000
Courts of Common Pleas	\$105,649,000
Magisterial District Justices	\$ 74,193,000
Philadelphia Municipal and Traffic Courts	\$ 6,857,000
Court of Judicial Discipline	\$ 468,000
Judicial Conduct Board	\$ 1,577,000

\*This item includes all rules committees of the Supreme Court, County Court Administrators, Office of the Court Administrator and other items.

The proposed appropriations for the Judicial Department are enhanced by a fee increase included in Act 49--2009. The legislation imposed a temporary 25-month surcharge, commencing December 8, 2009, on the existing Act 122 (2002) fee. The existing Act 122 (2002) fee excludes summary traffic offenses. The surcharge of \$11.25 was extended 36 months to December 31, 2014 by Act 30 (2011). Act 113 (2014) extended the collection of the surcharge to December 31, 2017. This surcharge is deposited into a separate reserve account within the Judicial Computer System Augmentation Account for general operations.

Act 113 (2014) increased and made permanent the fee deposited into the Access to Justice Account which supports legal aid. Prior to Act 113 (2014) the fee deposited into the Access to Justice Account was \$1.00.

The \$2.25 to the Criminal Justice Enhancement Account to fund full time District Attorney Offices per Act 49 (2009) is unchanged.

Per Act 49 (2009) and Act 113 (2014) the fees are distributed as follows:

- \$11.25 to the Judicial Computer Account.
- \$2.25 to the Criminal Justice Enhancement Account to fund full time District Attorney Offices. (permanent fee increase)
- \$2.00 to the Access to Justice Account for legal services.

The following amounts are expected from the following fees and are reflective of the December 31, 2014 sunset:

<b>Account</b>	<b>Fee</b>	<b>FY 2015-16 Estimated Revenue</b>
JCPS	\$11.25	\$20.17M
CJEA—DA's	\$2.25	\$ 5.60M
ATJ—Legal Services	\$2.00	\$ 2.19M
<b>Total</b>	<b>\$15.50</b>	<b>\$27.96M</b>

## **State Gaming Fund**

Act 71 of 2004 legalized slot machine gaming in the commonwealth and created the State Gaming Fund to receive all license fees provided for in the Act and tax revenues generated by the commonwealth's gaming facilities. Monies in the fund are annually distributed to various programs, while the remaining funds are transferred to the Property Tax Relief Fund.

It is estimated that the State Gaming Fund will disburse approximately \$1.19 billion in Fiscal Year 2015-16 for programs associated with Act 71, including Compulsive and Problem Gambling, Drug and Alcohol Programs, Local Law Enforcement Grants, and Emergency Management and Homeland Security Volunteer Company Grants.

The disbursements also include monies for counties and municipalities that host casinos, economic development projects, and the costs associated with regulating the gaming industry incurred by the Pennsylvania Gaming Control Board (PGCB), Pennsylvania State Police, Department of Revenue, and Attorney General.

The proposed PGCB budget is \$42,000,000.

## **Table Game Taxes (General Fund)**

Act 1 of 2010 legalized table games at Pennsylvania casinos. The state tax rate for table games is 14% for the first two years of operation. Those revenues are deposited into the General Fund. After 2

years, the commonwealth's portion of the table games tax is reduced to 12%. Casinos also pay an additional 2% as a local share assessment. Table game taxes will shift to the Property Tax Relief Fund when the Rainy Day Fund reaches \$750 million.

For FY 2015-16, table game revenues are expected to generate \$96.4 million in revenue.

## **Property Tax Relief Fund**

The Property Tax Relief Fund was created in Act 71 of 2004 to receive revenue from taxes imposed on slot machine gaming in the Commonwealth for purposes of providing school district property tax relief. Act 1 of Special Session 1 of 2006, the Taxpayer Relief Act, provides the distribution method for driving out property tax relief funds.

In FY 15-16, it is estimated that approximately \$783 million will be available for distribution from the Property Tax Relief Fund. This amount includes approximately \$616.2 million for general school district property tax relief pursuant to the Taxpayer Relief Act and an additional \$166.8 million for expanded senior citizen property tax and rent rebate reductions and relief for seniors in cities with high tax burdens. The funds also include \$5.0 million for emergency management volunteer company grants authorized to be paid out of the Property Tax Relief Reserve Fund pursuant to Act 78 of 2012.

## **Liquor Control Board - State Stores Fund**

Pennsylvania's Wine and Spirits system is an asset to the state and its taxpayers, now providing \$550 million annually in profit and tax revenue to support enforcement, drug treatment, and General Fund obligations.

Rather than selling the system for short term gain, the budget plan provides the Liquor Control Board with the tools it needs to modernize our wine and spirits system. Reforms include adding Sunday hours, identifying the most convenient locations for customers and competitive pricing. This will result in improved customer convenience and significantly increase the profitability of the existing system.

New revenue from modernization will be allocated to help school districts and the state address their future pension obligations. In 2015-16, \$80 million in new profits from liquor modernization will be allocated to school districts to reduce pension payments.

Beginning in 2017-18, \$185 million in increased profits from our LCB system will be transferred annually to pay the full cost of debt service on a \$3 billion bond to refinance part of the unfunded PSERS liability.