



Senate Democratic Appropriations Committee

BUDGET BLAST ▶▶▶▶▶▶▶▶

A quick look at important programs and budget issues • July 13, 2016

2016-17 Budget Recap

The final 2016-17 budget represents a \$31.533 billion spending plan supported by \$1.2 billion in new revenues and fund transfers. The plan also provides dedicated funding for a portion of commonwealth debt service payments, reducing PA's future cost of capital. While lean, the final budget includes key investments in pre-k through post-secondary education, provides resources to address the opioid epidemic and supports some of the commonwealth's most vulnerable citizens.

This recap examines key points relating to expenditures, revenues, the Fiscal Code, the Tax Code, the Public School Code and the Human Services Code. Additional detailed briefings will be provided in the near future.

By the numbers

- **\$31.533 billion 2016-17 General Fund budget**— an increase of \$1.4 billion (4.7%) over 2015-16 revised expenditures.
- **\$1.2 billion in new revenues and transfers.**
- **Funds commonwealth operations**, including an increase for the Human Relations Commission.
- **Additional investments in education:**
 - ⇒ \$200 million for **Basic Education**
 - ⇒ \$20 million for **Special Education**
 - ⇒ \$30 million for **Pre-K and Head Start**
- 2.5% funding increase for **higher education institutions and PHEAA grants.**
- **Additional support to address the health and well-being of the commonwealth's citizens:**
 - ⇒ \$750,000 for the **State Food Purchase Program** (food banks and assistance)
 - ⇒ \$15 million for initiatives to address the **heroin and opioid epidemic** in Pennsylvania
 - ⇒ \$3 million to begin **implementation of a Medical Marijuana Program**
 - ⇒ **Supports community based services for seniors and the disabled and expands autism services to additional adults.**
 - ⇒ Increased support for **domestic violence, rape crisis, legal services** and **ALS** programs.
 - ⇒ Increased support for **vocational rehabilitation** programs.

Revenues

- The **revenue estimate for 2016-17 is certified at \$31.56 billion**, adjusted for dedicated funding for the Commonwealth Financing Authority (CFA) debt service payments.
- Accounting for anticipated tax refunds to be paid in 2016-17, the **base amount of revenue available is \$30.26 billion.**
- Assumes **\$149 million** for the General Fund from **liquor modernization** in 2016-17.
- Includes **\$27 million** for **tax credit** expansions.
- An additional **\$654.4 million in increased revenues from recurring sources:**
 - ⇒ \$431.1 million from increasing the **cigarette tax** by \$1 per pack, effective Aug. 1, 2016.
 - ⇒ \$64.6 million from new taxes on **other tobacco products** such as e-cigarettes, loose tobacco, roll-your-own cigarettes and pipe or smoking tobacco (excluding cigars).
 - ⇒ \$55.5 million from changes to the sales tax **vendor discount.**
 - ⇒ \$46.9 million from applying the sales and use tax to **digital downloads.**
 - ⇒ \$16 million from subjecting **lottery cash prizes** to the **personal income tax.**
 - ⇒ \$16.8 million from increasing the table **games tax rate** from 12% to 14%.
 - ⇒ \$23.5 million from increasing the **bank shares tax** from 0.89% to 0.95% and making additional clarifications.

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- An additional **\$428.25 million from one-time sources** such as transfers, loans or one-time fees.
 - ⇒ \$74.75 million from the **slots and table games licensing fees of the new Category 2 casino expected to be approved in 2016-17**.
 - ⇒ \$37 million in transfers from the **Alternative Fuels Incentive Fund** (\$5 million), funds available for Local **Law Enforcement Block Grants** (\$2 million), the **Recycling Fund** (\$9 million), **Volunteer Companies Loan Fund** (\$9 million) and the **Building Pennsylvania Program** (\$12 million).
 - ⇒ \$28.5 million from the **Tobacco Settlement Fund** reflecting a new settlement negotiated by the Attorney General.
 - ⇒ \$200 million from the **unappropriated surplus of the PA Professional Liability Joint Underwriting Association** to the General Fund. This is a loan to be repaid over a five-year period beginning in 2018-19.

Spending assumptions impacting the financial statement

- **One-time savings of \$44 million** from another month delay in making school district **social security payments**.
- **Funding for the Department of Human Services (DHS) is nearly \$400 million less than cost-to-carry estimates**. The department may need significant supplemental funding later in the fiscal year in order to meet mandated obligations.

Special Funds

The final 2016-17 budget continues the trend of relying on special funds to offset General Fund expenditures.

- \$308 million in **Lottery Funds** for long term care, home and community based services and medical assistance transportation for seniors.
- \$133 million in **Tobacco Settlement Funds** for long term care.
- \$50 million in **Oil and Gas Lease funds** to support operations of the Department of Conservation and Natural Resources.
- \$800 million in **Motor License Funds** supporting the operations and related programs of the Pennsylvania State Police.
- \$4.6 million from the **Multimodal Transportation Fund** to pay for PENNPORTS debt service.

Fiscal Code

In addition to standard budget implementation language carried annually, the **2016-17 amendment to the Fiscal Code...**

- Extends the sunset of the **Cancer Control, Prevention and Research Act** by ten years (June 30, 2026).
- Makes **changes to unclaimed property provisions** under the Treasury Department, including required notice to the potential owner of the property and bring U.S. Savings Bonds under the purview of the program.
- Authorizes the Office of the Budget to begin discussions with the U.S. Department of the Treasury to **establish a reciprocal offset agreement**.
- Maintains the 2015-16 **revised allocation formulas for the Tobacco Settlement Fund** in 2016-17.
- Provides for **transfers from the Race Horse Development Fund** to the State Racing Commission (\$8.6 million) and to the Race Horse Development Restricted Receipts Account (\$19.7 million) for distribution to the Farm Products Show Fund, Animal Health Commission, Veterinary Lab System and PA Fairs as appropriated in the General Appropriations Act (GAA).
- Limits the transfer from the **Oil and Gas Lease Fund** to the **Marcellus Legacy Fund** for distribution to the **Environmental Stewardship Fund** to \$20 million.
- Transfers \$5 million from the **Marcellus Legacy Fund** to the **Hazardous Sites Cleanup Fund**.
- Transfers \$2.5 million from the sale of liquor and alcohol to the Department of **Drug and Alcohol Programs**.
- **Transfers \$37 million from various accounts and funds to the General Fund** as detailed in the "Revenues" section of this briefing.
- **Transfers \$28.5 million from the Tobacco Settlement Fund to the General Fund**.
- Provides for a **loan of \$200 million to the General Fund from the unappropriated surplus of the PA Professional Liability Joint Underwriting Association** to be paid back over five years beginning July 1, 2018.
- Creates a **restricted revenue account** that will receive proceeds from Sales and Use Tax

revenues for purposes of making **principal and interest payments for outstanding indebtedness of the Commonwealth Financing Authority.**

- Recapitalizes the Business in Our Sites Program (BIOS) with \$75 million transferred from the **First Industries Program** and the **Building PA Program**.
 - ⇒ Limits project grant awards to a maximum award not to exceed to 40% or \$4 million, whichever is less.
 - ⇒ No more than one-third of the funds made available for the program shall be used for grants.
- Transfers \$12 million from the **High Performance Buildings Program** to the **Natural Gas Infrastructure Development Program**.
- Increases **payments in lieu of taxes for federal and commonwealth forest reserves**, beginning in 2017-18.
- **Caps the amount of the Motor License Funds used to fund State Police operations** at \$801.7 million in 2017-18. The amount shall be **reduced annually** between 2018-19 and 2027-28 until reaching \$500 million or 60% of the amount in 2016-17.
- Extends the Public Utility Commission's temporary order **authorizing transportation network companies (TNCs), such as Uber or Lyft, to the city of Philadelphia** until Sept. 30, 2016 or upon enactment of enabling legislation.
 - ⇒ Similar to HB 941 PN 2649, this article outlines powers of the Philadelphia Parking Authority (PPA) relating to TNCs and requires TNCs operating in the city to pay an amount equal to one percent of the gross receipts from all fares charged to all passengers originating in the city. The State Treasurer shall distribute 66.67% of these proceeds to the Philadelphia School District and 33.3% to the PPA.
 - ⇒ TNCs operating in Philadelphia will be prohibited from stopping at designated taxi stands at AMTRAK stations and hotels; however, TNCs may operate at the airport pending an agreement between the parties.
 - ⇒ Like SB 984 PN 1440, the article also requires the PUC to promulgate rules to update and modernize taxi regulations.

- Allows the **Liquor Control Board to issue a special occasion permit** for a national event at a fee of \$5,000 per permit effective until July 29, 2016.
- Corrects various dates relating to liquor modernization reforms enacted in 2016.
- Exempts any well that does not penetrate the **Onondaga horizon** or wells that unintentionally penetrate the Onondaga horizon from the provisions of section 3(b) of the Oil and Gas Conservation Law.
- Establishes the **Heritage Park Program** designed to establish partnerships between governmental and nongovernmental agencies for the management, operation, planning, development and protection of Heritage Areas.
- The bill creates an **intercept program to assist school districts in the event of a budget impasse** if a General Appropriations Act has not been approved by July 1st.
 - ⇒ The amount of intercept payments is limited to no more than 50% of the total non-federal General Fund subsidy payment made in the prior fiscal year.
 - ⇒ Upon an enacted budget, payments paid during a budget impasse will be deducted from a school district's payments.
- **Suspends** the transfer to the **Budget Stabilization Reserve Fund** for FY 2016-17.
- **Suspends** the pension and social security payment **double dip** for charter and cyber schools for FY 2016-17.
- Moves the filing date for the required financial audit for the **Pennsylvania Coalition Against Domestic Violence** until September 30, 2016, which allows the coalition to continue to solicit private funds.
- Requires that a citation be issued during a **compliance check for the sale of tobacco products to minors**.
- Requires any **slot machine license fee** or **table game operation certificate fee** paid in FY 2016-17 to be deposited into the **General Fund**.
- Continues the **Department of Revenues enhanced revenue collection program** through FY 2019-20.
- Prohibits the **Department of Transportation** from using funds appropriated or any other funds in FY

2016-17 for **direct mail inserts** in mailings from the department.

- Allows the **Department of Agriculture** to use funds from the **Agricultural Conservation Easement Purchase Fund** for **succession planning grants** to continue agricultural operations.
- Allows the **State Workers' Insurance Board** to invest in Minority Depository Institutions and Community Development Financial Institutions.
- Allows projects that submitted a **redevelopment assistance capital project grant application** between January 9, 2015 through May 18, 2015 to remain eligible for funding regardless of the expiration date of the capital itemization.
- Increases the **presumptive minimum** for cigarettes to **7% per pack**. Currently the minimum is 6% per pack. Preempts all powers of dealers regarding the sale of tobacco products. **Philadelphia is excluded from the preemption.**

Tax Code

In addition to making changes required for the revenue package highlighted in the "Revenues" section of this briefing, **amendments to the Tax Code** also address a number of tax credits and other policy changes.

- Increases the **cigarette tax** from \$1.60 per pack to \$2.60 per pack beginning Aug. 1, 2016.
 - ⇒ In Philadelphia, the \$1 per pack increase will be in addition to the \$2 per pack local cigarette tax. The city will be held harmless on any revenue loss from the new state tax.
 - ⇒ Also removes the sunset date on the Philadelphia cigarette tax.
- Imposes a new tax on **other tobacco products**, excluding long cigars.
 - ⇒ A new 40% tax on the purchase price of an **e-cigarette or any other vaping system** will be imposed beginning October 1, 2016. The tax will be imposed on the entire e-cigarette, so if the battery is sold with the rest of the e-cigarette it will be taxed as well.
 - ⇒ **Loose tobacco, used to roll your own cigarettes**, will be taxed at 55 cents an ounce beginning December 1, 2016.
 - ⇒ **Pipe and chewing tobacco** will be taxed at 55 cents an ounce beginning October 1, 2016.
- ⇒ There will be a minimum weight of 1.2 ounces assumed for the aforementioned products.
- Creates a **new tax amnesty program** forgiving delinquent taxpayers for one-half of interest owed and all of the penalty assessed. Taxpayers who have delinquencies and which are unknown to the department would only have to pay the tax owed since January 1, 2011 and half of the interest that would have accrued.
- Expands the **sales and use tax (SUT)** to include the service of **digital downloads** (i.e. movies, e-books, Netflix subscriptions, canned software including apps, online magazine subscriptions, and satellite radio subscriptions).
- Updates the SUT "**vendor discount**" which allows businesses to keep 1% SUT collected on behalf of the commonwealth.
 - ⇒ The discount will remain unlimited to businesses that send in less than \$25 per month on the sales tax return (monthly sales of less than \$416).
 - ⇒ For businesses that exceed \$416 in monthly sales the vendor discount would be limited to \$25.
- Changes **other provisions relating to the SUT**:
 - ⇒ Prohibits the use of devices **commonly called zappers** which can hide sales from the electronic cash registers
 - ⇒ Creates **new exemptions** from the sales tax for material purchased in the business of timbering, and reusable corrugated card board boxes when they are used to distribute goods from a wholesale to a retailer.
 - ⇒ Exempts the sale of set up services within a convention center to an exhibitor.
- **Subjects PA lottery cash prizes to the personal income tax (PIT)** when winnings are large enough to require federal withholding. Taxpayers will be able to deduct their annual losses from any winnings subject to the PIT.
- Adds a PIT check-off to the PA tax return allowing owners of a **PA tuition account savings plan** to contribute any tax refund into that account.
- Makes **other technical changes relating to the PIT**:
 - ⇒ Clarifies that the deduction for intangible drilling costs be the same as required by the

federal government.

- ⇒ Clarifies that a gain from an involuntary sale (usually real estate) will not be counted as PA income, to conform with federal tax policy.
- Moves the **filing date for PA corporate net income (CNI) tax** returns to one month after the due date for the federal government (May 15th for most).
- Allows a corporation to file an amended CNI tax return even if the original is being assessed.
- **Exempts certain real estate transfers** made by a tax exempt veterans service organization and certain easements from the realty transfer tax.
- Clarifies the **bank shares tax** changes made in Act 55 of 2012 and resets the rate to be revenue neutral.
- Repeals the gross receipts tax (GRT) for Medicaid managed care organizations to be consistent with the assessment in the Human Services Code replacing this GRT.
- **Clarifies provisions on the inheritance tax** to expand exemptions to include transfers to a trust set up to manage a family farm.
- Increases the **state portion of the tax on casino table games revenue** from 12% to 14% for three years. This does not impact the local share assessment.
- Makes several changes to existing **tax credit programs** as well as creating some new programs.
 - ⇒ **City Revitalization Improvement Zone:** changes to expand eligibility, make the program run more smoothly and address the counting of revenue in the state's hotel tax.
 - ⇒ **Coal Refuse Energy and Reclamation Tax Credit:** makes coal electric generation facilities that use coal refuse as its fuel eligible for a tax credit of \$4 per ton of used coal refuse. \$7.5 million in credits will be available in 2016-17 to be increased to \$10 million in 2017-2018. No taxpayer is eligible for more than \$2.22 million in credits per year.
 - ⇒ **Research and Development Tax Credit:** makes a technical correction to remove a date that was intended to be eliminated when the sunset provision of the tax credit was removed by Act 85 of 2012.
- ⇒ **Film Production Tax Credit:** expands and increases the total amount available from \$60 million to \$65 million beginning in 2017-18. Prospectively, beginning in 2017-18, DCED can re-issue any unused film tax credits in the next fiscal year.
- ⇒ **Concert Rehearsal and Tour Tax Credit:** creates a new \$4 million tax credit to incentivize the use of PA venues, staff, equipment, etc. for concert tours and rehearsals beginning in 2017-18.
- ⇒ **Video Game Production Tax Credit:** creates a new \$1 million tax credit for companies that produce video games beginning in 2017-18.
- ⇒ **Waterfront Tax Credit:** creates a new \$1.5 million tax credit to incentivize public spaces as part of waterfront redevelopment beginning in 2017-18.
- ⇒ **Job Creation Tax Credit:** changes the existing credit to increase the incentive for companies to hire a veteran and allow DCED to award multi-year credits.
- ⇒ **Manufacturing Tax Credit:** creates a new \$4 million tax credit to incentivize companies to create more manufacturing jobs in PA beginning in 2017-18.
- ⇒ **Rural Jobs and Investment Tax Credit:** creates a new \$1 million tax credit to encourage investment in rural businesses through rural growth funds beginning in 2017-18.
- ⇒ **Neighborhood Assistance Program:** expands the current tax credit to include projects that aid veterans' housing, victims of domestic violence or affordable housing.
- ⇒ **Mixed Use Development Tax Credit:** establishes a new \$2 million tax credit program to encourage the development of mixed used developments that includes housing and commercial real estate development beginning in 2017-18.
- ⇒ **Keystone Innovation Zone:** caps the available tax credits each year at \$17 million (currently capped at \$25 million).
- ⇒ **Malt Beverage Tax Credit:** allows breweries to be eligible for \$200,000 annually in tax credits against the malt beverage excise tax beginning in 2017-18.

- ⇒ **Computer Data Center Equipment Tax Credit:** provides for a sales tax refund for the owners and tenants of data centers located in PA after Dec. 31, 2013, beginning in 2017-18. The total amount of refunds may not exceed \$5 million per year. Both the Philadelphia and Allegheny County local sales taxes will be subject to these refund provisions.

School Code

The final budget package included several **amendments to the Public School Code** necessary for the implementation of the 2016-17 budget and other policy changes...

- Requires the Department of Education (PDE) to post annual financial information related to public school entities on its website (**SchoolWATCH**)
- Requires the Plan Con Advisory Committee to also review and report on whether the commonwealth should implement a comprehensive **public school building safety** program.
- Requires the State Board of Education to establish an **advisory committee to identify and issue a report regarding redundant, overly burdensome or unnecessary public school entity data collection requirements.**
- Requires traditional K-12 public schools to **post certain school policies online** for everyday operations.
- Allows 2nd Class A school districts to impose a payroll tax instead of a mercantile tax.
- Requires the Secretary of Education to issue a declaration that a school district is in financial watch status if a school district receives educational access program funding in excess of \$2 million in one year. Identified schools shall receive technical assistance and develop a plan to improve their finances based on this assistance, issue a report and hold an annual public hearing regarding the plan.
- Adds a grandchild to the list of near relatives for whose funeral day a professional or temporary professional employee of a school district may be absent with pay.
- Permits an individual who does not hold a teaching permit to **teach as a substitute** for 20 days per school year in a school district, intermediate unit or area vocational-technical school, if the individual provides verification of his or her **enrollment in a teacher preparation program** in a Pennsylvania college or university and completion of 60 credit hours and has met the requirements relating to background clearances.
- Authorizes the Department of Education to grant **provisional education certificates** to individuals who present the Department with satisfactory evidence of good moral character and have completed work in vocational education as required by the standards of the State Board of Education—allowing the recipient to teach for eight annual school terms.
- Allows a professional educator to **carry over excess continuing professional education credits or hours** into the next compliance period.
- Outlines components of the **inter-district agreement** between Pittsburgh and Wilkesburg.
- Allows PDE to increase the value of the weights used in the formula by the consumer price index (CPI) yearly.
- Provides for any unspent funds from the appropriation for **approved private schools** that are returned after the annual audit is submitted to be redistributed to the approved private schools that have exhausted their State allocation to allow for the education of additional students.
- Provides guidelines for **diabetes care and management** in a school setting.
- Establishes a **drug and alcohol recovery high school pilot program.**
- Provides for **administrative partnerships between school entities** so that two or more school entities may enter into an agreement to share personnel and administrative services.
- Establishes the **E-chievement Program** to award grants on a competitive basis to school districts to implement hybrid learning, includes blending traditional and online class offerings and strategies.
- Allows students who successfully complete a course in **computer science or information technology** to use the credit for the course to satisfy a math or science graduation credit requirement.
- Clarifies the method used to determine the **aid ratio and market value/income aid ratio for charter schools and cyber charter schools.**
- Precludes charter and cyber charter schools from

receiving funds from the appropriations for social security costs and school employees' retirement costs (**pension double-dip**).

- Outlines requirements for **end-of-year payment reconciliation for charter school entities**.
- Provides for the distribution of **career and technical education equipment grants**.
- Allows Northampton Area Community College to appoint up to two trustees from a county where a campus is located with no sponsor.
- Provides for **community colleges** to receive the same allocation as the current year and a pro rata share of any additional funding based on each college's share of full-time equivalent students.
- Reenacts provisions contained in the Fiscal Code requiring **alternative education programs** to submit application and renewal fees to the Department of Education, similar to language in the 2015-16 Fiscal Code.
- Reestablishes the **rural regional college** and specifies the organization, administration and operations of such college in a multi-county rural area that is under-served by comprehensive college education and workforce development, as has been carried in the Fiscal Code.
- Increases the amount of tax credits available in the **Educational Improvement Tax Credit program** by \$25 million to a total of \$125 million, allocated in the same proportions as provided for in current law.
- Provides for each **library** to receive a pro rata share of funding based on its prior year allocation.
- Includes provisions relating to distribution of **special education funding**:
 - ⇒ Provides for **intermediate units** to be funded at an amount equal to 5.5% of the Special Education Funding appropriation.
 - ⇒ Implements the **Special Education Funding Commission's recommended formula** currently contained in the Fiscal Code. The formula considers a weighted student count based on student costs, wealth, tax effort and sparsity/size.
 - ⇒ Provides 1% of the Special Education appropriation to be set-aside for the contingency fund and for the monies to be awarded to school districts and charter schools for extraordinary **special education expenses**.

- Allows the PDE to use up to \$4.5 million in undistributed funds to assist school districts in financial distress or identified for financial **watch status**.
- Provides for the distribution of **Ready-to-Learn Block Grants** to each school entity in the same amount as was allocated in fiscal year 2015-2016.
- Provides that the **Social Security payments to school districts** be made on a quarterly basis.

Human Services Code

Changes to the Human Services Code were necessary to ensure the continuation of dedicated revenue accounts used to fund services and offset General Funds. Act 76 of 2016...

- Provides for the **phase-out of the yearly fee paid to DHS by counties operating public nursing facilities** as Community Health Choices (managed long-term care services and supports) phases in. Complete elimination will require an estimated \$19.1 million in state funds annually.
- Directs **DHS to temporarily suspend (no more than two years) medical assistance benefits rather than terminate them for incarcerated individuals**. This will allow released individuals to quickly receive any necessary treatment.
- Extends the **Nursing Facility Budget Adjustment Factor** for three years. This ensures payments to nursing facilities do not exceed amounts appropriated. Without these provisions, DHS would be obligated to spend over \$300 million in additional facility payments.
- Authorizes **medical assistance day-one incentive payments for nonpublic nursing facilities** for another fiscal year. This is appropriated at \$8 million for 2016-17.
- Extends the requirement for **child welfare providers to submit documentation on the costs of providing out-of-home placements**. This is required to support claims of federal funding (\$30.8 million) for state reimbursement.
- Extends the **Nursing Facility Assessment** for three years for estimated revenue of \$490 million.
- Extends the **Intermediate Care Facilities for Persons with Intellectual Disability (ICF/ID) Assessment** for three years. Estimated revenue is \$38 million over the next three years.
- Extends the **Philadelphia hospital assessment** for three years, excluding free-standing cancer hospitals. Estimated revenue is \$63 million over

the next three years.

- Deletes a requirement that DHS dedicate staff solely to the **licensure and enforcement of assisted living residences**. This will allow for greater flexibility in staffing and cost savings.
- Moves the duties of the **eHealth Partnership Authority** to DHS allowing pooling of resources and maximization of federal funding. In addition, one homecare or hospice representative is added to the advisory board. The move is estimated to save the commonwealth \$1 million annually.