

# 2016/17 **BUDGET BRIEFING**

Report on Key Issues  
*HOUSE APPROPRIATIONS COMMITTEE (D)*

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UPDATED Aug. 23, 2016



## 2016/17 General Fund Budget Overview of Revenue, Expenditures

The General Assembly passed a \$31.53 billion 2016/17 General Appropriations Act July 1 that included significant investments in education and increased spending \$1.4 billion, or 4.7 percent, over 2015/16 (including \$103.3 million in supplemental appropriations). However, because of an unsettled controversy about how to pay for a budget plan that exceeded current revenue streams, Gov. Tom Wolf waited 10 days and allowed the law to take effect July 12, without his signature.

During the 10-day wait, lawmakers negotiated a revenue package to support the appropriations act and complete legislation that routinely accompanies the spending plan. The General Assembly adopted the remaining pieces of the 2016/17 budget July 13 and they were signed by the governor that same day.

While this revenue package begins to address the structural deficit, more needs to be done to buttress recurring revenues.

This “Budget Checkbook” is an overview of income and expenditures in the 2016/17 state budget. More detailed information about funding for specific agencies and programs is available at [www.hacd.net](http://www.hacd.net).

### 16/17 Budget Components

All of the components of the state budget should be passed by the House and Senate and signed by the governor before midnight June 30 to ensure funding for critical programs.

The 2016/17 budget includes the following:

- General Appropriations (Act 16A/SB 1073) – Lapsed into law, July 12
- Fiscal Code (Act 85/HB 1605) – Signed by the governor, July 13
- Tax Code (Act 84/HB 1198) – Signed by the governor, July 13
- Public School Code (Act 86/HB 1606) – Signed by the governor, July 13
- Non-Preferred Appropriations (Acts 17A-21A/HBs 2137-2141) – Signed by the governor, July 13
- “Housekeeping” Appropriations involving agencies like the PUC, Gaming Control Board, Small Business Advocate, SERS, and PSERS (Acts 7A-15A/HBs 2175-2180, 2182-2184) – Signed by the governor, July 8
- Human Services Code (Act 76/HB 1062) – Signed by the governor, July 8, and
- Liquor Code (Act 39/HB 1690) – Signed by the governor, June 8.

The 2016/17 budget package did not include a Capital Budget, which, under Pennsylvania’s Constitution, is required to be adopted by the General Assembly at the start of every fiscal year.

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## Introduction

The 2016/17 budget agreement reflects a strong bipartisan compromise that cleared the way for new and necessary revenue sources to support the General Fund spending package and deliver a cost-to-carry budget with some exceptions (mainly, education). Most other expenditure increases happened in areas that Pennsylvania must pay, such as corrections, federally mandated costs, and payroll and benefits, to keep agencies running at current service levels.

**The General Appropriations Act provides \$31.53 billion in state General Fund expenditures for 2016/17, which is an additional \$1.4 billion, or 4.7 percent, compared with 2015/16, including supplemental appropriations.** The expenditure amount is net of the \$95.4 million appropriation for the Commonwealth Financing Authority, which was moved “offline” to a different account but has traditionally been considered part of the General Fund. This conservative spending plan demanded additional funding sources that led to a \$1.2 billion revenue package, of which almost 60 percent will recur in future years.

While there is more to do for our struggling schools, the most significant victory in this budget is the meaningful investments in education at all levels, including a:

- \$200 million, 3.5 percent, increase for basic education,
- \$20 million, 1.9 percent, increase for special education,
- \$30 million, 18 percent, increase for early childhood education,
- \$10.4 million, 4.3 percent, increase for early intervention, and
- \$38 million, 2.5 percent, increase for institutions of higher education.

More good news is that the commonwealth will

make significant, required pension payments to the Public School Employees’ and the State Employees’ retirement systems. These moves are crucial for the long-term fiscal health of the state and they help to improve the commonwealth’s outlook with bond rating agencies. A large portion of these pension payments reduces the unfunded liabilities (pension debt) of PSERS and SERS.

While we are happy to report that Republicans and Democrats support full pension payments in this budget, it should be remembered only a portion of the payments that support today’s classrooms may be counted toward today’s education spending. *The portion that pays for pension debt incurred in prior years should not be counted.*

About 70 percent, or \$1.45 billion, of the state’s \$2.06 billion PSERS appropriation goes toward paying down the unfunded liability. Some people often count all of the pension payments to inflate the commonwealth’s total expenditures for education. However, we should take pride knowing the commonwealth and school districts are now meeting the full actuarially required pension contribution for PSERS.

Compromise was necessary to bring this budget to a timely conclusion, but the budget leaves unfinished business. It relies on adjustments to the General Fund financial statement that will challenge our ability to sustain the budget throughout the fiscal year, and while lawmakers achieved significant headway toward resolving a chronic, recurring deficit, they will need to finish the job next year.

We urge a watchful eye and believe lawmakers will need to re-group halfway through this budget to check on the status of cautionary concerns that the negotiated budget agreement:

- Assumes a revenue estimate more optimistic than the Independent Fiscal Office’s,
- Underestimates expenditures for federally mandated entitlement programs,

## 2016/17 General Fund Budget Balancing Measures to Monitor

(\$ Amounts in Millions)

EXPENDITURES	
<b>General Fund Expenditures Shifted Offline or to Special Funds</b>	<b>\$60.0</b>
Authority Rentals & Sinking Fund Requirements (PlanCon) shifted offline	\$40.0
Long-Term Care (Nursing Homes) - additional expenses shifted to Tobacco Settlement Fund	\$20.0
<b>Other Unsustainable/Questionable Budget Savings</b>	<b>\$428.0</b>
Medicaid expenditures - potential loan from Workers Compensation Security Fund	\$165.0
Other Medicaid expenditures - savings based on optimistic estimates	\$168.0
Long-Term Care (Nursing Homes) - expenses paid with strategic contribution payment (from tobacco companies) which ends after 2017	\$21.0
DHS Cash Grants - unsustainable use of federal TANF block grant reserves	\$20.0
School Employees Social Security payments - only 11 payments funded in 2016/17	\$44.0
Department of Corrections - questionable savings	\$10.0
<b>Subtotal Expenditures</b>	<b>\$488.0</b>
REVENUES	
<b>Transfers to General Fund</b>	<b>\$65.5</b>
Alternative Fuels Incentive Fund	\$5.0
Local Law Enforcement Block Grants	\$2.0
Recycling Fund	\$9.0
Tobacco Settlement Fund	\$28.5
Volunteer Companies Loan Fund	\$9.0
Building Pennsylvania Program	\$12.0
<b>Revenue Estimate - difference from IFO estimate</b>	<b>\$80.0</b>
<b>Other Unsustainable/Questionable General Fund Revenue Raisers</b>	<b>\$468.0</b>
Joint Underwriting Association Loan to the General Fund	\$200.0
Tax Amnesty Program - one-time revenue	\$100.0
Table Games License Fee - one-time revenue	\$24.8
Liquor Modernization (Act 39) - one-time fees	\$73.2
Casino License Fee - one-time revenue	\$50.0
Volkswagen Settlement - one-time revenue (assumed in the base revenue estimate)	\$20.0
<b>Subtotal Revenues</b>	<b>\$613.5</b>
<b>TOTAL</b>	<b>\$1,101.5</b>

- Depends upon non-recurring revenue from the Tobacco Settlement Fund, including the strategic contribution payment that ends after 2017, and
- Assumes a \$200 million loan from the Joint Underwriters Fund to balance the budget.

**We have made progress reducing the use of significant, one-time, unsustainable funding sources and gimmicks used to balance the General Fund budget, but more work remains.**

The structural deficit continues to be an issue that all three bond rating agencies (Standard and Poor’s, Moody’s and Fitch) are monitoring.

We estimate we will need to monitor about \$1 billion used to balance the budget this year, down from \$1.9 billion noted in our committee analysis of the last Republican budget under Corbett (2014/15), including:

- \$513.5 million in new revenue that is non-recurring, and
- \$488 million in savings that may not materialize or be sustainable in future years.

Altogether, \$31.53 billion in state General Fund appropriations consist of:

- \$30.92 billion in preferred state appropriations, and
- \$592 million in non-preferred appropriations for higher education along with \$22.9 million in Executive Authorizations.

Also passed as part of the General Appropriations Act are:

- \$26.2 billion in federal appropriations, and
- \$3.8 billion in special fund appropriations.

“Housekeeping” legislation appropriated another \$373.4 million from the other special funds and restricted receipts accounts.

**Revenue**

**General Fund Checkbook**

The total amount of state General Funds available to spend each fiscal year includes deposits received during that year, along with the balance carried over from the prior year and unspent money (lapses) from previous budgets.

Taxes collected from individuals and businesses comprise the largest portion of the state’s deposits. Fees and other non-tax revenue (such as profits from the Liquor Control Board) make up the remainder of deposits. In spite of a largely cost-to-carry budget, funds deposited into the General Fund would not have covered enacted expenditures for 2016/17 had it not been for new revenue sources.

Before adjustments for new revenue, the total amount of money available to spend for 2016/17 would have grown by only 1.7 percent, or \$502 million. Given a budget package where expenditures increase by \$1.4 billion (4.7 percent), new revenues worth about \$1.2 billion were necessary to bring the commonwealth’s General Fund checkbook into balance.

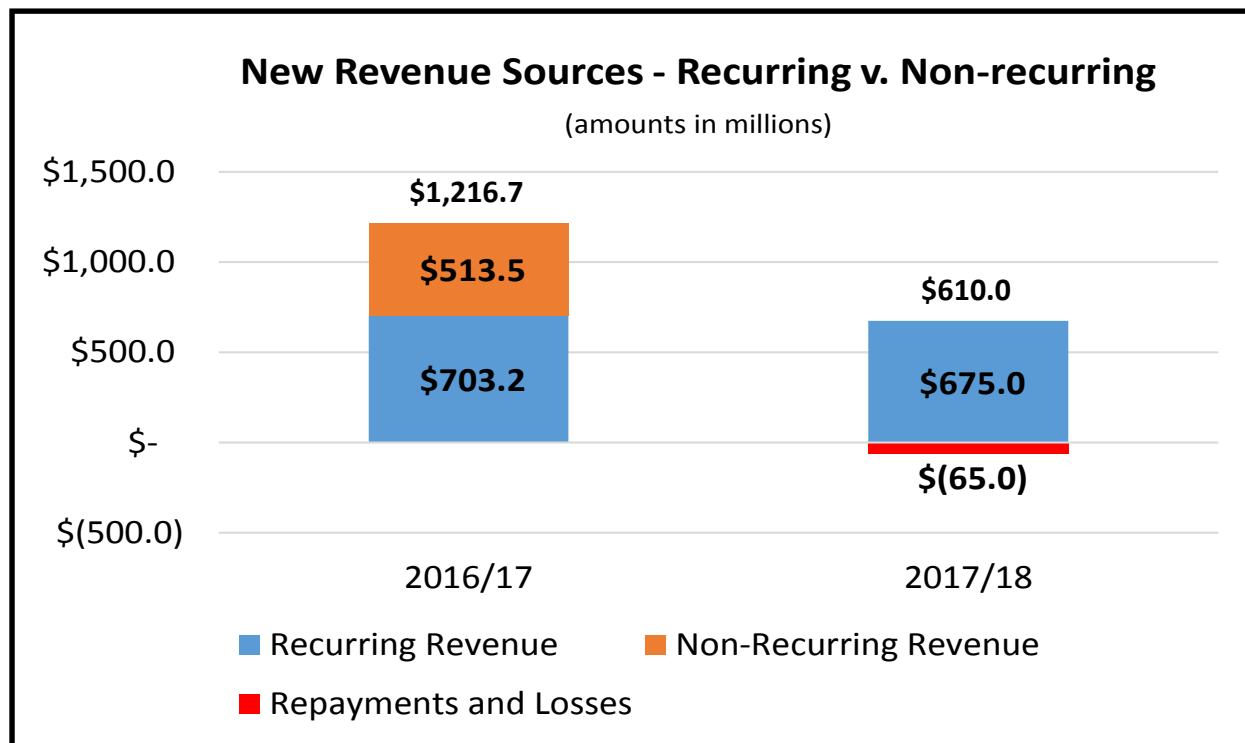
<i>(amounts in thousands)</i>	<b>2015/16</b>	<b>2016/17</b>	<b>Increase</b>	
<b>Appropriations</b>	\$30,023.8	\$31,533.7		
<b>Supplemental Appropriations</b>	\$103.3	\$0.0		
<b>Total Expenditures</b>	\$30,127.2	\$31,533.7	\$1,406.6	4.7%

<b>Revenue Package Summary</b> <i>(amounts in millions)</i>			
<b>Tax Type</b>	<b>Description</b>	<b>Effective</b>	<b>2016/17</b>
<b>Recurring Revenue - Tax</b>	<b>Tax Provisions</b>		
Cigarette Tax	\$1.00 per pack increase from \$1.60 per pack to \$2.60 per pack	8/1/2016	\$ 431.1
E-Cigarettes	40% of the wholesale price imposed on vapor producing devices and liquid cartridges	10/1/2016	\$ 13.3
Smokeless Tobacco	55 cents per ounce with a floor minimum weight	10/1/2016	\$ 48.2
Roll-Your-Own Cigarettes	56 cents per ounce with a floor minimum weight	12/1/2016	\$ 3.1
Sales Tax Vendor Discount	Cap at \$25 per month or \$300 per year. This provision leaves businesses with taxable sales of \$500,000 or less unaffected.	8/1/2016	\$ 55.5
Digital Downloads SUT	Sales and use tax on digital downloads of books, music, satellite radio and streaming video and audio.	8/1/2016	\$ 46.9
Personal Income Tax on Lottery Winnings	Applies only to cash prizes	1/1/2016	\$ 15.8
Banks Shares Tax	Rate change to 0.95 percent	1/1/2017	\$ 23.5
Table Games Tax 2% Increase	Sunsets in 3 years	7/1/2016	\$ 16.8
Net Tax Credit and Minor Changes	Various new and amended tax credits and incentives		\$ (1.8)
Educational Improvement Tax Credit	Increases the cap from \$100 million to \$125 million per year. Contained in Education Code	2016/17	\$ (25.0)
<b>Recurring Revenue - Non-Tax</b>	<b>Non-Tax Provisions</b>		
Liquor Modernization	Act 39 contains both recurring and non-recurring revenue. Recurring sources primarily include flexible pricing, Sunday sales and customer relations management.	8/8/2016	\$ 75.8
<b>Subtotal Recurring Revenue</b>			<b>\$ 703.2</b>
<b>Non-recurring Tax Revenue</b>			
Tax Amnesty	Contained in Tax Code		\$ 100.0
<b>Net Tax Revenue</b>	Excludes liquor modernization		<b>\$ 727.40</b>
<b>Additional Revenue Sources to Balance the Budget</b>			
<b>Non-recurring Revenue</b>			
Liquor Modernization	Act 39 non-recurring sources primarily include licensee surcharges, auctioning of restaurant licenses and casino license fees.	8/8/2016	\$ 73.2
Casino Slots License Fee	Assumed for the Philadelphia Casino		\$ 50.0
Table Games License Fee	Timing change contained in Fiscal Code		\$ 24.8
Tobacco Settlement Transfer	Contained in Fiscal Code		\$ 28.5
Various Fund Balance Transfers	Contained in Fiscal Code		\$ 37.0
Joint Underwriting Association Loan	Contained in Fiscal Code		\$ 200.0
<b>Subtotal from Additional Sources</b>			<b>\$ 413.5</b>
<b>Subtotal Non-recurring Revenue</b>	Includes the Tax Amnesty Program		<b>\$ 513.5</b>
<b>Net Revenue</b>			<b>\$ 1,216.7</b>

For many years, **Pennsylvania has failed to replenish its savings account for rainy days** (the Budget Stabilization Reserve Fund). Unlike many states that are rebuilding reserves after the Great Recession, Pennsylvania again suspends the legal requirement to transfer 25 percent of the ending General Fund balance into its rainy day fund. Most other states’ rainy day fund balances have been steadily increasing in recent years, according to “The Fiscal Survey of the States (spring, 2016).”

### General Fund Revenue

The revenue package required to balance the budget in 2016/17 is approximately \$1.2 billion and includes changes to the Tax Code, Fiscal Code, School Code and Liquor Code, as well as several assumptions made within base revenues.



The revenue package in 2017/18 is only expected to be worth about half of this year’s amount – \$610 million – due to the use of one-time revenues and new tax credit programs.

The net increase from new tax revenue is an estimated \$727.4 million in 2016/17, including \$100 million of non-recurring revenue from Tax Amnesty. The EITC was repealed from the Tax Code and moved to the Public School Code.

The net increase in new tax revenue expected in 2017/18 is \$643 million, with decreases attributable to new tax credit programs beginning July 1, 2017, as well as decreases from the tax amnesty program.

New non-tax revenue sources expected in 2016/17 include \$265.5 million from special fund transfers and loans to the General Fund, \$74.8 million from casino license fees and \$149 million from liquor modernization initiatives contained in Act 39 of 2016.

These tax code changes increase revenue by \$752.4 million, but are offset by \$25 million due to the expansion of the Educational Improvement Tax Credit.

Of the \$1.2 billion revenue package, recurring revenues (tax and non-tax) are estimated at \$703.2 million for 2016/17 and \$675 million for 2017/18 with decreases mostly attributable to new tax credit programs. Although recurring revenue sources show increases in 2017/18 from tobacco taxes, 2016/17 estimates do not account for a full year (since the Tax Code bill was passed after the start of the fiscal year and time is needed for implementation).

Typically, tobacco taxes decline slightly each year due to cessation and, therefore, decreases from those taxes are expected in 2018/19.

Non-recurring revenues in this package are estimated at \$513.5 million in 2016/17 and negative \$65 million in 2017/18. Therefore, not only will there be a \$513.5 million hole in the 2017/18 budget, the commonwealth will have to come up with an additional \$65 million to begin making payments on the loan from the Joint Underwriting Association Fund (\$40 million) and to compensate for lower revenues resulting from the tax amnesty program (\$25 million).

### **JUA - Joint Underwriting Association Loan**

Originally established under the Health Care Services Malpractice Act (Act 111 of 1975), the Pennsylvania Professional Liability Joint Underwriting Association, or JUA, is a nonprofit organization providing medical professional liability insurance to health care providers and corporations unable to secure liability coverage through standard channels and rates.

Aside from its origin in statute, the association operates no differently than other medical professional liability insurers. It is independently operated and sets rates that must be reviewed by the state Insurance Department.

Mcare, or the Medical Care Availability and Reduction of Error Act (Act 13 of 2002), updated the JUA in two minor ways: 1) JUA could no longer borrow from the Medical Professional Liability Catastrophe Loss Fund (more commonly called the "CAT Fund") to fill a deficit, although it never has faced a deficit; and 2) the rates set by JUA influence the rate structure for Mcare surcharges. The Mcare Act did nothing to change the independence and autonomy of JUA.

The 2016/17 budget calls for a significant \$200 million loan from JUA to the General Fund, which is to be repaid over five years, beginning July 1, 2018.

While a recent, independent audit of JUA shows a surplus in excess of the loan amount, JUA says this surplus represents a necessary safeguard to ensure it can pay claims. Additionally, the Joint Underwriting Association is an independent nonprofit. As such, the commonwealth has no legal standing to compel JUA to provide this loan.

### **Revenue Assumptions**

The base revenue estimate for 2016/17 is \$31.56 billion, and the official estimate of total tax and non-tax revenue including the \$1.2 billion new revenue package — and before refunds — is \$32.78 billion.

Embedded in this estimate is an assumption of one-time revenue from the Volkswagen settlement related to emissions, as well as a recent update by treasury for estimated escheats. The agreed-to budget deal assumes \$100 million from internet gaming, per House Bill 2150, which has not yet been adopted by the Legislature and is not counted in the \$1.2 billion revenue package. It is expected that the General Assembly will consider this proposal this fall before *sine die*.

### **Tobacco Taxes**

#### **Cigarette Tax**

The price of a 20-pack of cigarettes increased by \$1.00 on Aug. 1, 2016, moving from \$1.60 per pack (eight cents per cigarette) to \$2.60 per pack (13 cents per cigarette). Philadelphia's local \$2.00 cigarette tax was not affected by this increase and is collected in addition to the total state tax rate.

Act 84, the Tax Reform Code Act, includes a hold-harmless provision to ensure the School District of



Philadelphia's cigarette tax revenue never falls below \$58 million. **Current estimates show Philadelphia's local cigarette tax revenue at \$59 million.** There is no expected fiscal impact to the state for the next two years. If local revenues fall below \$58 million, the state would transfer the difference between actual revenue and \$58 million from state tax revenues.

### Other Tobacco Products

Prior to the enactment of Act 84, Pennsylvania was the only state without a tobacco product tax. Effective Oct. 1, 2016, a tax of 55 cents per ounce will be levied on tobacco products with a price floor where containers of less than 1.2 ounces are considered to be 1.2 ounces for taxing purposes. Taxable purposes include:

- Granulated perique, plug cut, crimp cut, ready rubbed and other smoking tobacco, snuff, dry snuff, snuff flour, Cavendish, plug and twist tobacco, fine-cut and other chewing tobaccos, shorts, refuse scraps, clippings, cuttings and sweepings of tobacco and other forms of tobacco prepared in such a manner as to be suitable for chewing, ingesting or for smoking in a pipe.

### Cigars

Pennsylvania and Florida remain **the only states** that do not impose an excise tax on large cigars.

### E-Cigarettes

Lawmakers amended the Tax Code to allow for a new tax on electronic cigarettes at a rate of 40 percent of the wholesale price, including the device that provides vapor for inhalation as well as the liquid substance placed in the e-cigarette. Act 86 levies the tax on the retailer beginning Oct. 1, 2016. The wholesaler will collect the tax and remit it to the Department of Revenue.

Pennsylvania retailers may only purchase products from distributors licensed by the commonwealth.

**Pennsylvania is the fifth state to tax e-cigarettes,** according to the Tax Foundation. Kansas, Louisiana, Minnesota, North Carolina currently

tax e-cigarettes; Washington, D.C., also taxes e-cigarettes, as do Chicago (and Cook County), Illinois, and Montgomery County, Maryland.

### Roll-Your-Own Cigarettes

Tobacco that is labeled, suitable for use, and likely to be used for consumers to make cigarettes will be taxed at 55 cents per ounce with a price floor that considers containers of less than 1.2 ounces to be 1.2 ounces for taxing purposes. Adding this tax will help the commonwealth's position as it argues to retain funds in future litigation involving the Tobacco Settlement Fund and the Master Settlement Agreement. It also creates a more level playing field between roll-your-own cigarettes and manufactured cigarettes, especially in light of the tax rate increase on a pack of cigarettes. Due to actions required by the Master Settlement Agreement, new revenue from this is not expected to be realized until December 2016.

### Floor Tax on Tobacco Products

Act 84 includes a floor tax on cigarettes, all tobacco products, and e-cigarettes. The floor tax is the difference between the current and new tax rate retailers must pay on inventory in their possession as of the effective date.

It is common practice to include a floor tax when increasing the tax rate on cigarettes to eliminate competitive differences among businesses based on inventory. A floor tax also eliminates any incentive for retailers to stock up on inventory before the effective date. Retailers have 90 days from the effective date to remit the floor tax.

### Sales and Use Tax on Tobacco Products

All cigarettes, tobacco products, e-cigarettes, roll-your-own cigarettes and cigars have been subject to sales and use tax prior to Act 84 as tangible personal property and continue the same applicability of the sales and use tax.

The sales tax is applied to the purchase price paid by the consumer, which includes the excise cigarette tax or tobacco products tax. Therefore, the rate increase for cigarettes is estimated to generate an additional \$12.9 million in sales tax revenue, and the higher prices resulting from the tobacco products tax is estimated to generate an additional \$1.9 million in sales tax in 2016/17.

These sales tax estimates are included in the total estimates generated by Act 84. The sales and use tax imposed on large cigars remains unchanged and remains the only tax imposed on cigars.

## Sales and Use Tax

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### Digital Downloads

Videos, books, games, photos, software and music are currently taxable in their tangible forms. Movies and videos purchased through a streaming service or premium cable service (such as Netflix, HBO, pay-per-view and on-demand movies) are also currently taxable. However, streaming audio, such as satellite radio, is not currently taxed. The Tax Code was amended to clarify the treatment of digitally downloaded, streamed or accessed content and make it the same as tangible content.

The tax is imposed on the content and not on the internet service provided and is done to be consistent with other digitally downloaded items, such as custom software, which are currently subject to tax. The sales tax will be imposed on digitally downloaded or accessed video, photographs, books (or otherwise taxable printed material), applications known as apps, games, music, streaming audio and video, satellite radio, any other audio, and canned software.

Free apps and downloads have zero purchase price and are not subject to the tax.

### Vendor Discount

Businesses that timely file and remit sales and use tax payments are entitled to retain one percent of the amount due (0.06 percent of taxable sales; not one-sixth of the amount due) as compensation for their efforts in collecting the sales tax on behalf of the purchaser. This discount originated because of the cumbersome nature of manually keeping records on each individual sale. Technological advances have made this process much simpler in recent years.

Act 84 caps the amount of the discount retained by retailers at \$300 per year (\$25 per return for monthly filers, \$75 per return for semi-annual,

and \$300 per return for annual filers). This means the new law will not affect businesses with \$500,000 in taxable sales or less per year and they will continue to retain the same discount of one percent of the remittance. Businesses with more than \$500,000 in taxable sales will be affected and will only be able to retain the maximum of \$300 per year.

Retailers currently retain an average discount of approximately \$250. Businesses with taxable sales less than \$500,000 retain an average of \$30 per year. Act 84 will not affect approximately 90 percent of businesses with a sales and use tax license.

## Personal Income Tax

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### Lottery Winnings

All gambling winnings from lotteries, raffles, horse races and casinos are subject to federal income tax and the Pennsylvania personal income tax, or PIT. However, Pennsylvania Lottery winnings are not subject to the state PIT.

Act 84 imposes the personal income tax on cash prizes from the Pennsylvania Lottery. Non-cash prizes from the Pennsylvania Lottery would remain exempt from the state income tax but they will still be subject to the federal income tax. The PA Lottery provides a cash prize of 25 percent of the non-cash prize value in order for recipients to pay the federal income tax.

There is no threshold under which small winnings would be exempt. Small winnings, though, are generally anonymous and can be redeemed at any lottery retailer. Individuals will be responsible for reporting such winnings on their income tax return at the end of the year. Pennsylvania cash prizes of \$600 or more must be redeemed directly from the PA Lottery, so the Department of Revenue will be able to issue forms and/or withhold the tax liability from the prize amount.

### Bank Shares Tax

Act 52 of 2013 made numerous changes to the bank shares tax that were intended to be revenue neutral. Such changes actually resulted in revenue loss and also created unintended confusion. Therefore, Act 84 of 2016 made several clarifications to the definition of goodwill and apportionment methods and increased the tax rate from 0.89 percent to 0.95 percent for the calendar year

beginning Jan. 1, 2017, and each year thereafter to recoup a portion of the previous losses.

Additionally, Act 84 creates new exclusions for the book value of total equity capital of foreign subsidiaries (commonly referred to as “Edge Act”). Therefore, when banks calculate their tax base, they will be able to exclude any capital held by subsidiaries in foreign countries. Beginning Jan. 1, 2018, 20 percent of such foreign equity capital can be excluded from total bank equity capital. This exclusion is phased in over a five-year period where each year an additional 20 percent of foreign equity capital can be excluded, resulting in a 100 percent exclusion for the calendar year beginning Jan. 1, 2022, and each year thereafter.

### **Tax Amnesty Program**

Proponents of the tax amnesty program — which allows businesses and individuals to have all penalties and half the interest waived on delinquencies that existed prior to Dec. 31, 2015 — say it is a way to quickly generate one-time, short-term revenue while adding unknown non-filers to tax rolls.

Revenue officials will establish the new program and schedule a 60-day window during 2016/17 when it will apply. Although amnesty is expected to generate short-term gains, there are significant administrative costs of about \$21 million. Amnesty will also reduce the routine delinquent collections by the department during the year of its operation and for several years thereafter. It is difficult to estimate how much in delinquent payments Revenue might have collected if it followed normal enhanced collection and enforcement efforts. However, an estimated \$25 million decline will result in 2017/18 from this amnesty period.

Delinquent collections have ranged from \$629.1 million to \$728.3 million in each of the past five years.

Typically, a tax amnesty program speeds up the collection of delinquent taxes and results in a slowdown of those collections in subsequent years following the forgiveness program.

Pennsylvania’s first tax amnesty program occurred in 1995 and brought in \$93 million. The last amnesty program was held in 2009 (Act 48) for a 54-day amnesty period during 2009/10 and generated \$254.6 million in revenue before subtracting administrative costs and losses from routine collections.

Beneficiaries of an amnesty program may not participate in a subsequent amnesty program.

## **Education**

### **Pre-Kindergarten-12th Grade**

The 2016/17 budget brought total funding for the Department of Education, excluding higher education-related appropriations, to \$11.5 billion. This is \$666 million more than in 2015/16. However, the new amount does not represent what classrooms are receiving and is not entirely useful for comparison purposes because it includes the entire \$2.06 billion PSERS appropriation and \$1.44 billion of that is going toward the system’s unfunded liability (pension debt).

Offloading the PlanCon appropriation and a change in Social Security reimbursements also make comparing Education’s total spending figure to previous years less meaningful. A better approach is to look at the trends in specific areas of spending, as outlined below.

### **Basic Education Subsidies**

It is important to include all basic education-related appropriations in the total basic education funding discussion. In 2016/17, we consider the following appropriations as basic education subsidies:

#### **Basic Education Funding**

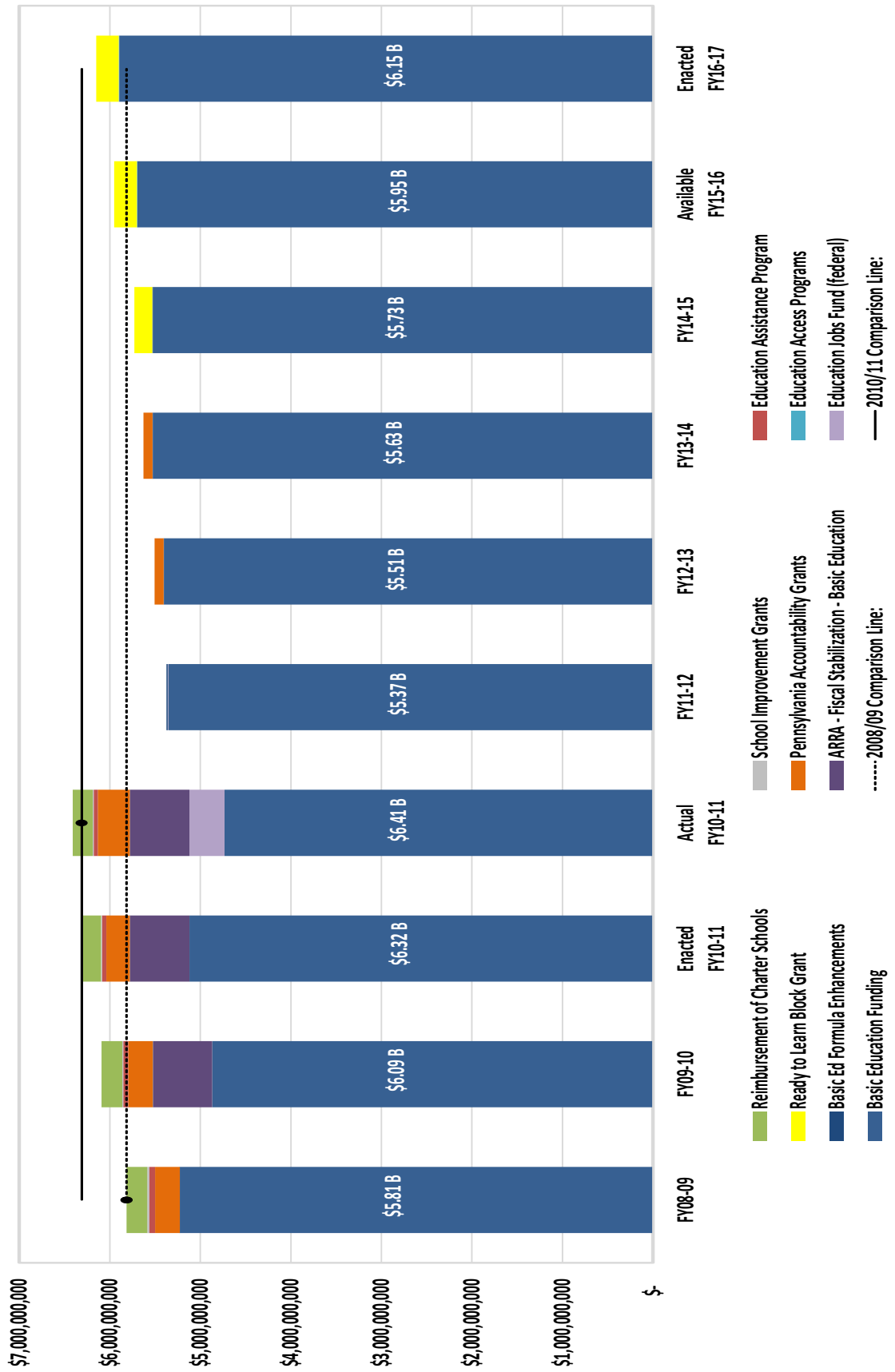
- \$5.9 billion, which is a \$200 million, or 3.5 percent, increase over 2015/16
  - ⇒ This is the largest state General Fund appropriation in the state’s General Fund budget,
- New dollars above the 2014/15 base are allocated to school districts using the Basic Education Funding Commission’s recommended fair funding formula.

#### **Ready to Learn Block Grant**

- Flat-funded at \$250 million,
- The \$50 million increase delivered in 2015/16 did not

## The Basic Education Subsidies in 2016/17 Remain \$158.6 Million Below 2010/11

Gov. Wolf has increased basic education funding by \$421 million since taking office, surpassing the 2008/09 level of spending (the year before federal stimulus).



Note: The 2011/12 budget provided a \$100 million supplemental payment for the 2010/11 Accountability Block Grant appropriation. Recorded historically in 2010/11, but the comparison line backs it out.

go through the Basic Education Funding Commission's recommended fair funding formula.

### Education Access Program

- A new appropriation that received a \$6.3 million supplemental appropriation in 2015/16 but only \$6 million in 2016/17,
- The 2016/17 amendments to the School Code stipulate that any school district receiving \$2 million or more from the Education Access Program in a single fiscal year shall be identified as being on financial watch and receive technical assistance from the Department of Education,
- The distribution of these funds has not been determined yet.

The Wolf administration's first two budgets have added back \$421 million to basic education subsidies, but, basic education subsidies for school districts still remain \$158.6 million below the comparable 2010/11 level. (see prior chart) The commonwealth eliminated several basic education subsidy appropriations in 2011/12, such as charter school reimbursement and education assistance program; or reduced appropriations, such as basic education funding and accountability block grant, as part of the \$1 billion cut that disproportionately affected poorer school districts more reliant on state funding.

Act 35 of 2016, which established the fair funding formula recommended by the Basic Education Funding Commission in a permanent section of the school code, eliminated Pennsylvania's tradition of guaranteeing a school district at least the same state basic education funding as it received in the previous fiscal year (a practice commonly referred to as "hold-harmless").

While the practice of holding school districts harmless to the prior fiscal year has ended, there is still an element of hold-harmless in the distribution of basic education funding.

In future years, a school district will get at least the same amount that it received in 2014/15.

Funding above that level will be distributed through the Basic Education Funding Commission formula using the most recent data.

Therefore, the share of basic education funding distributed through the BEFC formula will start very small, but will continue to grow as more funding is added to basic education.

For example, this fiscal year, 6 percent or \$352 million of the \$5.9 billion basic education funding appropriation will be distributed based on the fair funding formula. The share of basic education funding being distributed using the BEFC formula in 2016/17 is already more than twice the 2.7 percent share in 2015/16.

The 2016/17 funding formula share uses the latest weighted and adjusted student count data to redistribute the \$150 million increase from 2015/16 and allocate the new \$200 million increase from 2016/17.

As more funding is appropriated for basic education, state allocations via the more equitable BEFC formula will drive an increasing share of the total.

The Basic Education Funding Commission formula is a student-based calculation. Instead of each district receiving the same amount of state funding per student, every district receives the same amount of funding per weighted and adjusted student. More funding is distributed for students who are living in poverty, English language learners, and those attending charter schools.

Additional resources are determined by a district's sparsity/size, relative wealth, local tax effort and capacity.

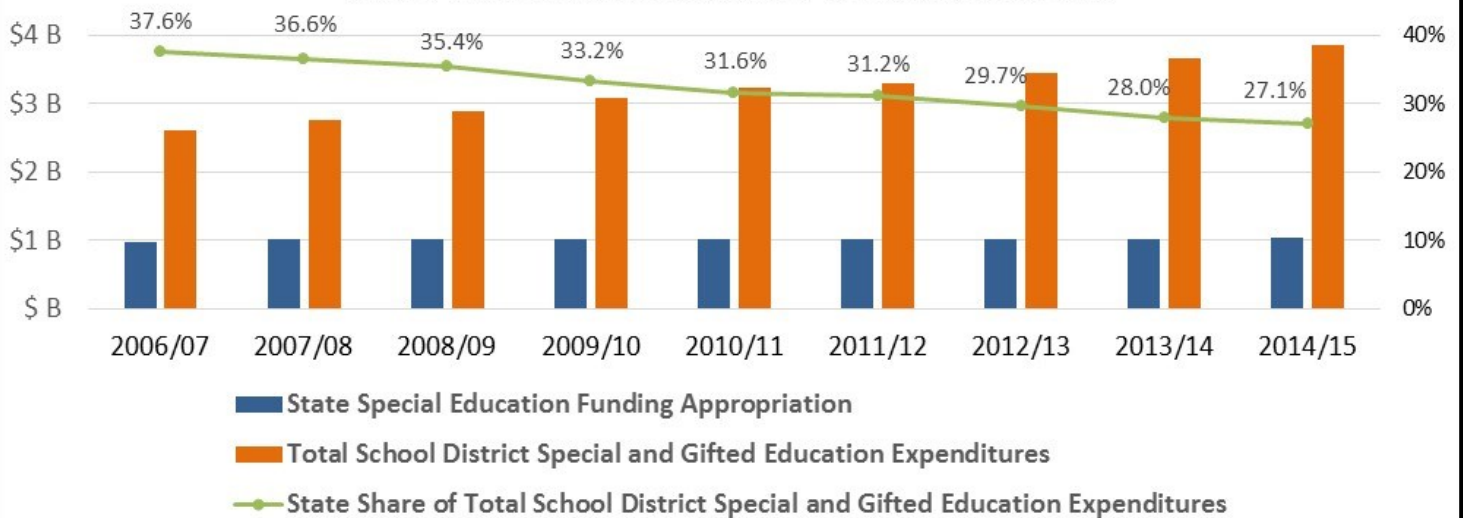
### Special Education

Following six years of flat funding, the commonwealth is continuing a new trend: three consecutive years of increased commitment for special education. This year, Pennsylvania's special education appropriation is \$1.1 billion after receiving a \$20 million increase from the General Assembly and governor. Special education's appropriation went up \$20 million in 2014/15 and \$30 million in 2015/16.

Special education is a mandated cost for school districts, and the amount districts are spending on special education services continues to rise.

According to the Department of Education's annual

**Rising special education costs coupled with stagnant state funding has caused the state's share of special education expenditures to fall.**



financial report, school districts spent \$3.9 billion on special and gifted education in 2014/15 (latest year available), which was a \$565 million, or 17.2 percent, increase over the \$3.3 billion spent on special education in 2011/12.

With stagnant state funding between 2008/09 and 2014/15, the state's share of total school district special and gifted education expenditures fell from 35.4 percent in 2008/09 to 27.1 percent in 2014/15.

Besides the need to increase state support, part of the reason the legislature and administration have been more willing to invest in special education recently is due to Pennsylvania's new special education formula that started in 2014/15.

The Special Education Funding Commission's recommended formula is an improvement over Pennsylvania's prior formula because that calculation had allocated funding based largely on the assumption that each school district had 16 percent of its total student population identified as special education students. That faulty assumption was used for 22 years.

The Special Education Funding Commission formula distributes funding based on categories of support for students with disabilities (Category 1 students cost less than \$25,000 annually to educate; Category 2, between \$25,000 and \$50,000; and Category 3, over \$50,000) while also

taking a district's relative wealth (using the market value/personal income aid ratio), sparsity-size, and tax effort (using equalized mills) into account.

The General Assembly established 2013/14 as the base year for the new formula, meaning a school district automatically receives the amount it was allocated that year. Available funds left over (i.e. the funding appropriated above the 2013/14 level) are distributed using the new formula.

In 2016/17, only 6.5 percent (\$65.4 million out of \$1.01 billion due to amounts taken off the top of the appropriation) of the special education funding distributed to school districts will be allocated using the Special Education Funding Commission formula. This share will increase as the state invests more funding into the special education appropriation.

The 2016/17 school code placed the Special Education Funding Commission's recommended formula into a permanent section of the Public School Code that will not have to be reconsidered each year. Previously, the formula had to be re-established each year since it had only ever applied to one year at a time in various fiscal codes.

**Charter Schools**

The General Assembly has not taken action on the commission's recommendation that the fair funding formula apply to payments school districts make to charter schools (brick & mortar and cyber). In his 2016/17 proposal, Gov. Wolf supported phasing-in this

recommendation over three years, estimating school districts would save \$180 million per year once fully implemented. The governor's proposal to better align the tuition amounts school districts pay to cyber charter schools with cyber charters' actual costs to educate students – a measure that would have saved school districts \$50 million annually – was also not accomplished as part of the 2016/17 budget.

The 2016/17 budget continues to not fund duplicative payments to charter schools for social security and pensions.

### **Early Childhood Education**

Early childhood education in Pennsylvania is receiving \$30 million, or 18 percent, more this year. Of the new investments, \$25 million is for Pre-K Counts and \$5 million is for the Head Start Supplemental Assistance Program. These same increase amounts were included in 2015/16.

The state-funded Head Start Supplemental Assistance Program counted 4,781 students in 2014/15, while 13,424 students were enrolled in Pre-K Counts. The increases provided in 2015/16 allowed for an additional 972 Head Start slots and 4,958 Pre-K Counts slots.

However, funding in 2015/16 was not released until the second half of the fiscal year, and PDE's Office of Child Development and Early Learning decided to maximize available funding by using all \$30 million to expand the number of seats for six months.

To keep the same level of early childhood seats for a full year, the 2016/17 budget needed to annualize the 2015/16 increase. Therefore, the \$30 million increase in 2016/17 will not lead to more enrollment in state funded early education; rather, it maintains the available slots created in the second half of 2015/16.

### **PlanCon**

The funding source for PlanCon, the commonwealth's reimbursement vehicle for school construction and renovation, is in the process of shifting from the General Fund to

proceeds from bonds issued by the Commonwealth Financing Authority.

The 2015/16 and 2016/17 budgets did not appropriate any funding in the traditional General Fund PlanCon appropriation ("Authority Rentals and Sinking Fund Requirements"). Instead, the 2015/16 Fiscal Code amendments, which became Act 25 of 2016 in April 2016, authorized CFA to issue up to \$2.5 billion in bonds over the next several fiscal years for all projects in the PlanCon process.

School districts are eager to know what PlanCon funding to expect in 2016/17 and beyond, but the information is not available yet. CFA is currently selecting bond counsel and underwriters for the PlanCon bonds. The next step is for the CFA board to approve an initial issuance amount and go to market for the bonds.

The timing of the bonds and the amount issued will be telling as to when and which school districts can expect school construction reimbursement funding. The Department of Education is still responsible for administering the PlanCon program and will allocate the available bond proceeds between catching school districts up on the missed 2015/16 payments, fulfilling 2016/17 obligations, reducing the backlog of projects that have been awaiting payments, and providing lump sum payments.

Chairman Markosek will update the timing and allocation of PlanCon bonds as information becomes available. Whether or not a debt service payment on the PlanCon bonds is necessary in 2016/17 depends on the timing and structure of the bond issuance. The funding source for CFA debt service, previously contained in the General Fund "Transfer to the Commonwealth Financing Authority" appropriation, was moved to a restricted revenue account in the 2016/17 fiscal code.

In addition to authorizing PlanCon bonds, Act 25 of 2016 establishes the Public School Building Construction and Reconstruction Advisory Committee to review and make recommendations about the future of the state reimbursement for school construction. The committee organized and held its first meeting July 12 and is required to submit a report to the governor and leaders of the General Assembly by May 15, 2017.

## School Employees' Social Security

The 2016/17 budget underfunds school districts by an estimated \$44 million in school employees' Social Security payments by effectively pushing one month's worth of reimbursements into the fiscal year. The 2015/16 budget shorted school districts \$87.4 million in required Social Security payments by creating a two-month lag in the state reimbursements. The two delayed payments from 2015/16 will be picked up in 2016/17, necessitating a significant increase in the school employees' Social Security appropriation. However, the increase in 2016/17 is only \$55.1 million, or 12.6 percent, instead of the true increase amount of \$99.1 million, or 22.7 percent.

Beginning this year, school districts will be reimbursed quarterly instead of monthly for Social Security payments. This change, included as part of the 2016/17 School Code, pushes one quarter (or three months) of the state's Social Security reimbursement payments out of 2017/18. The three-month delay, offset by the two months of payments owed for 2015/16, results in school districts being underfunded one-month's payment, or about \$44 million in 2016/17.

## Intercept Program

Pennsylvania's bond intercept program enables a school district to enter into an agreement with the state Department of Education and a bond creditor to allow a state subsidy (e.g. state basic education funds) owed to a school district to be sent directly ("intercepted") to the creditor if a debt service payment on a bond is not paid on schedule by the school district. In exchange for providing this additional security measure to bondholders, school districts participating in the bond intercept program receive enhanced credit ratings, leading to lower borrowing costs.

The prolonged 2015/16 budget impasse threatened the continuation of Pennsylvania's bond intercept program. In the absence of state funds to intercept, credit rating agencies became unwilling to provide the enhanced rating.

In September 2015, three months into the budget

impasse with no state aid flowing to school districts, Standard & Poor's placed all school district ratings based on the state aid intercept program on credit watch with negative implications. In December 2015, almost six months into the impasse, S&P announced the withdrawal of its enhanced ratings based on state aid intercept for school districts. S&P cited the unreliable state funding and questioned the state's commitment to the program since no alternative measures were in place in the event of a budget impasse.

The 2016/17 Fiscal Code (Act 85 of 2016) amendments allow PDE to comply with an intercept agreement in the event of a budget impasse. The new article permits an appropriation to be made from the General Fund to PDE in the amount necessary to cover an intercept payment during a budget impasse.

The removal of the bond intercept program from the annual state budget process should alleviate the concerns of ratings agencies and allow the bond intercept program to function properly. Of course, any intercept payments made on behalf of a school district will continue to be withheld from the next appropriate state payment to the school district.

## Other Education Policy Changes

Act 86 of 2016, the School Code legislation for 2016/17, included a number of policy changes, several of which have state budgetary implications.

### E-Chievement

- Created the parameters for a hybrid learning competitive grant program for school entities, and
- No funding was included for this grant program in the 2016/17 budget.

### Drug and Alcohol Recovery High School Pilot Program

- The state must pay 60 percent of the inflation-pegged \$20,000 per year tuition rate per student enrolling in the pilot recovery school for Philadelphia. Total cost to PDE in 2016/17 is \$240,000.



## Higher Education

The 2016/17 budget provides a 2.5 percent increase for institutions of higher education, including community colleges, state-related universities, the State System of Higher Education, Thaddeus Stevens College of Technology, and institutional assistance grants for private colleges and universities.

Appropriations for higher education are contained in the General Appropriations Act and the non-preferred appropriations acts for the four state-related universities (Act 17A – Act 20A of 2016).

Appropriations for Institutions of Higher Education				
<i>(amounts in thousands)</i>	2015/16	2016/17 Budget	\$ Change	% Change
Community Colleges	\$226,450.0	\$232,111.0	\$5,661.0	2.5%
Penn State - General Support	\$224,816.0	\$230,436.0	\$5,620.0	2.5%
Penn State - PA College of Technology	\$19,584.0	\$20,074.0	\$490.0	2.5%
<b>Penn State Subtotal</b>	<b>\$244,400.0</b>	<b>\$250,510.0</b>	<b>\$6,110.0</b>	<b>2.5%</b>
Pitt - General Support	\$140,693.0	\$144,210.0	\$3,517.0	2.5%
Pitt - Rural Education Outreach	\$2,500.0	\$2,563.0	\$63.0	2.5%
<b>Pitt Subtotal</b>	<b>\$143,193.0</b>	<b>\$146,773.0</b>	<b>\$3,580.0</b>	<b>2.5%</b>
Temple - General Support	\$146,913.0	\$150,586.0	\$3,673.0	2.5%
Lincoln - General Support	\$14,084.0	\$14,436.0	\$352.0	2.5%
PA State System of Higher Ed	\$433,389.0	\$444,224.0	\$10,835.0	2.5%
Thaddeus Stevens	\$12,949.0	\$13,273.0	\$324.0	2.5%
PHEAA - Institutional Assistance Grants	\$25,121.0	\$25,749.0	\$628.0	2.5%

PHEAA Appropriations				
<i>(amounts in thousands)</i>	2015/16	2016/17 Budget	\$ Change	% Change
Grants to Students	\$266,235.0	\$272,891.0	\$6,656.0	2.5%
PA Internship Program Grants	\$350.0	\$350.0	\$0.0	0.0%
Ready To Succeed Scholarships	\$5,000.0	\$5,000.0	\$0.0	0.0%
Matching Payments	\$12,496.0	\$12,496.0	\$0.0	0.0%
Institutional Assistance Grants	\$25,121.0	\$25,749.0	\$628.0	2.5%
Higher Ed for the Disadvantaged, Act 101	\$2,246.0	\$2,246.0	\$0.0	0.0%
Higher Ed of Blind or Deaf Students	\$47.0	\$47.0	\$0.0	0.0%
Bond-Hill Scholarship	\$534.0	\$697.0	\$163.0	30.5%
Cheyney Keystone Academy	\$1,525.0	\$1,813.0	\$288.0	18.9%

Penn State University also receives separate funding under the Department of Agriculture to support ag research functions and the operation of the county cooperative extension offices. The appropriation for these functions increases by 2.5 percent, or \$1.26 million, to \$51.8 million.

While the budget provides a 2.5 percent increase for PHEAA grants, the hike arrives with two competing factors: 1) The 2015/16 budget had reduced the state grant appropriation and relied more on augmenting revenues from PHEAA's business earnings to maintain grant levels, and 2) Declining grant applications are reducing the overall resources required to maintain the program.

In previous years, the PHEAA board allocated a portion of its business earnings to bolster the state grant program. PHEAA used \$75 million of its revenues for several years but added \$50 million more in 2015/16, which required the agency to draw down on its reserves and risk a more abrupt fall-off in its ability to continue contributing funds from its business earnings to the program.

Along with its \$272.9 million appropriation in the 2016/17 budget, PHEAA expects to use \$87 million in business earnings to augment its spending. When combined with the increased General Fund support and current application trends, PHEAA expects the overall impact will be a slight increase to the maximum grant.

## **Pensions**

**For the first time in 15 years, the 2016/17 budget provides the actuarially calculated annual required contribution to the Public School Employees' Retirement System.** This step not only reflects the General Assembly's serious concern for properly funding PSERS, but it sends a strong message to the credit markets that the commonwealth pays its bills.

The employer pension payment consists of two key components: (1) the cost of the benefit earned by the employee; and (2) the cost associated with paying off the unfunded liability

(pension debt).

For 2016/17, approximately 70 percent of the pension payment made to PSERS and 85 percent of the pension payment made to State Employees' Retirement System will go towards paying down the pension debt. When Republicans comment that the budget increases funding for K-12 education, the Democratic House Appropriation Committee emphasizes that a significant portion of the increase (\$1.44 billion) is a pension debt payment and that a lesser portion (\$571 million) goes toward employee benefits. We argue only the portion of the payment that supports today's classrooms should be counted toward today's education spending, not the portion that pays for pension debt incurred in prior years.

The total payment to the PSERS trust fund is \$2.06 billion, which is \$345 million, or 20 percent, more than the 2015/16 appropriation of \$1.72 billion.

The PSERS pension payment reflects three components:

- Cost to provide benefits (\$571 million or 28 percent of the payment),
- Cost to pay down the unfunded liability (\$1.44 billion or 70 percent of the payment), and
- Cost of the health care premium assistance to qualifying educators (\$57 million, or 2 percent of the payment).

The total payment to the State Employees' Retirement System trust fund is estimated to be approximately \$600 million, which is roughly \$107 million, or 22 percent, more than the 2015/16 appropriation of \$493 million. The budget provides the state's share of the legally required employer contribution payment to the SERS. It is anticipated that the full actuarially required contribution payment to SERS will be made in 2017/18.

The SERS pension payment reflects two components:

- Cost to provide benefits (\$90 million or 15 percent of the payment), and
- Cost to pay down the unfunded liability (\$510 million or 85 percent of the payment).

## **Public Employees Retirement Commission**

Act 100 (Senate Bill 1227) dissolved the Public Employees Retirement Commission, or PERC, and transferred its duties to the Independent Fiscal Office and the Department of the Auditor General. Funding is provided to IFO and the auditor general to carry out PERC's

responsibilities.

The auditor general is receiving a \$337,000 appropriation and three full-time equivalent positions to perform “Act 205” duties, which include monitoring and enforcing compliance with actuarial funding standards for the Municipal Pension Aid program (something the auditor general already administers). The municipal aid calculation will be performed by the budget office.

The Independent Fiscal Office receives an additional \$320,000 to carry-out its “Act 66” duties to review all proposed legislation applicable to public employee pension systems and to attach actuarial notes to the proposed legislation within 20 legislative days by contracting with outside firms to perform actuarial analysis on pension legislation.

### Charter School Pension Double-Dip Eliminated

Act 85 again, temporarily, eliminated the state’s duplicative retirement contribution to charter and cyber-charter schools, which will save \$74 million. (Note: the pension “double-dip” was only temporarily eliminated in 2015/16).

### Opioid Strategy

Communities throughout the commonwealth are experiencing an epidemic of heroin and opioid abuse. Gov. Wolf identified this issue as a preeminent policy priority shortly after taking office, and his administration has worked to bolster efforts to engage in proven and innovative strategies to combat this public health crisis.

Over the past two years, state funding to support these efforts has increased by \$31.05 million through the departments of Human Services, Health, Drug and Alcohol Programs, and Corrections. Meanwhile,

ongoing investments continue to be made in state police and the Pennsylvania Commission on Crime and Delinquency.

On the prevention front, the Department of Health is implementing the Achieving Better Care by Monitoring All Prescriptions (ABC-MAP) program to prevent prescription drug abuse. Additionally, the state physician general issued a standing order for Naloxone, Oct. 28, 2015, allowing any Pennsylvania resident to access the rescue drug. This builds on previous efforts to ensure that local and state emergency responders are carrying the life-saving drug.

Funding for education and treatment programs has also grown significantly over the past two years, with a renewed investment in the statewide network of single county authorities through the Department of Drug and Alcohol Programs, as well as new investments in DHS to support Centers of Excellence.

The centers represent an innovative, integrated treatment approach that goes beyond simply addressing addiction to focus on the physical and behavioral health of an individual. Besides the direct care component, the centers will act as a hub to help individuals and families navigate the health care system.

The 2016/17 budget provides funding to support the establishment of 20 Centers of Excellence, and the administration is analyzing the potential impact on Medicaid managed care rates to determine if it will fund additional facilities.

General Funds Budgeted for Heroin and Opioid Initiatives			
(amounts in thousands)	2015/16 Actual	2016/17 Available	Total Two-Year Investment
Drug and Alcohol Programs (SCAs)*	\$3,500.0	\$4,250.0	\$7,750.0
Human Services (COEs)	\$0.0	\$15,000.0	\$15,000.0
Health (ABC-MAP Registry)	\$2,146.0	\$3,153.0	\$5,299.0
Corrections (MAT Pilot Program)*	\$1,500.0	\$1,500.0	\$3,000.0
<b>Total Budgeted Funds</b>	<b>\$7,146.0</b>	<b>\$23,903.0</b>	<b>\$31,049.0</b>
*Gov. Wolf had requested addtl \$5 million for SCAs; the Legislature split this amount with \$1.5M to DOC			

Criminal justice resources dedicated to the prevention of overdoses and addiction treatment has seen a significant boost. Approximately 1,300 naloxone kits are now being carried by state law enforcement personnel, with at least one kit in each state police vehicle. Prior to implementation of Act 139 of 2014, which allows officers to carry and administer naloxone, officers did not carry the kits.

Over the past two years, PCCD has allocated more than \$1 million annually to provide naloxone to law enforcement and community non-profits, support the Vivitrol Pilot Program in state correctional institutions, and fund evidence-based medically-assisted treatment programs in county jails. Federal funds for these purposes go to the state's residential substance abuse treatment program, Justice Assistance Grant, and the state Substance Abuse Education and Demand Reduction Fund.

Corrections is maximizing this funding by partnering with drug manufacturers and utilizing Medicaid expansion to procure Vivitrol for free or reduced rates for participants in the pilot program. And, a Non-Narcotic Medicaid Assistance Treatment Pilot Program is funded through a 2015/16 General Fund appropriation to Corrections at \$1.5 million. The program will provide grants to counties to establish and expand such programs. Initial awards are anticipated in 2016/17.

Recognizing and addressing the underlying problem of opioid addiction in high risk populations, PCCD funds county intermediate punishment programs that divert non-violent offenders into substance abuse programming. PCCD also won a three-year, \$1.75 million grant in 2015/16 from the Federal Justice Reinvestment Initiative for a Pre-Trial Drug and Alcohol Diversion Project. These funds will be used throughout 2016/17 and 2017/18 to develop and implement programs that reduce the flow of offenders into the prison system and provide substance abuse treatment.

## **Department of Health**

The 2016/17 enacted budget provides an additional \$6.5 million, or 3.1 percent, in General Fund dollars to the Department of Health. The additional funding includes modest increases across the agency's core program areas: quality assurance (3.7 percent), vital statistics (16.7 percent), and state laboratory (14.7 percent). Notably, funding for health innovation – formerly chronic care management – is reduced by \$500,000, which effectively eliminates the supplemental appropriation made in the prior fiscal year.

The enacted budget includes a new \$3 million appropriation for the statewide medical marijuana program, as conceived in Act 16 of 2016. This is a one-time loan from the General Fund to support start-up costs needed to develop and implement the program, and the loan is to be paid back within 10 years.

The 2016/17 budget increases funding for the Achieving Better Care by Monitoring All Prescriptions (ABC-MAP) prescription drug registry by \$1 million – a 46.9 percent hike over 2015/16 funding but the increase is needed to annualize administration costs as the program moves towards full implementation.

The “community based health care subsidy” is reduced by \$1 million over FY 2015/16. This program started under the previous administration as a way to offset the adverse impact to medically underserved or low-income communities resulting from the closure of state health care centers across the commonwealth. Citing Act 87 of 1996, the Pennsylvania Supreme Court issued a ruling against the “unlawful closing” of these facilities and required that all shuttered facilities be reopened. Gov. Wolf has worked to restore the statewide network of state health care centers and secure sustainable funding.

Targeted disease and research appropriations contained within the Department of Health are restored to prior fiscal year funding levels in the enacted budget, with several appropriations receiving modest increases.

## **Department of Human Services**

The budget appropriates \$11.98 billion in state revenue from the General Fund for the Department of Human Services in 2016/17, an increase of \$466.5 million from 2015/16, including a net supplemental appropriation increase of \$70.9 million.

These General Fund dollars account for about one-third of total DHS spending. Federal funds – including Medicaid matching funds and various block grants – account for more than half of the department’s budget.

Special funds (namely lottery, and tobacco settlement) make up \$600 million of DHS’ spending. The balance of DHS’ budget includes revenue generated from the assessments/taxes on various Medicaid providers (nursing facilities, managed care organizations and hospitals) and other revenue (county intergovernmental transfer payments and fees paid by consumers for services).

As proposed by Gov. Wolf, the eHealth Partnership Authority is moved to DHS. The General Assembly amended the Human Services Code to transfer the authority, which was established in 2012 to implement a health information exchange.

We estimate that the new Act 76 provisions (blue text box below) reduce the need to spend

General Fund revenue by approximately \$600 million in 2016/17.

We will know more about how DHS intends to spend its appropriated funds when it releases its 2016/17 re-budget later this summer. After reviewing those materials, we will provide a detailed analysis of the spending plan in a separate briefing that will be posted on our committee’s website.

### **Medical Assistance (MA)**

State General Fund spending for the four major Medical Assistance appropriations (MA fee-for-service, MA capitation, long term care, and payment to federal government for Medicare Part D) is \$5.85 billion, which is an increase of \$81 million over 2015/16.

The monthly MA caseload is expected to average 2.8 million during 2016/17, including more than 600,000 Pennsylvanians who now have health care coverage after Medicaid expansion in 2015. State funding for another MA appropriation – Medical Assistance for workers with disabilities, or MAWD – is decreasing \$16.3 million due to declining MAWD enrollments as more working-disabled

#### **Act 76 of 2016 amended the Human Services Code to make the following required changes to implement and balance DHS’ budget:**

- Extend the assessment on nursing facilities an additional three years, through June 30, 2019. This assessment, which supports MA rates and other payments to nursing facilities, will generate approximately \$485 million in gross revenue in 2016/17.
- Extend the assessment on intermediate care facilities for the intellectually disabled three more years through June 30, 2019. Revenue generated from this assessment, which is levied on the state ID centers and the private intermediate care facilities for the intellectually disabled, funds public and private facilities. The assessment is anticipated to generate \$38 million in 2016/17 (\$19.7 million for private intermediate care facilities for the intellectually disabled and \$18.3 million for the state ID centers).
- Extend the Philadelphia hospital assessment three years, through June 30, 2019. This revenue is shared between Philadelphia and the commonwealth. The state will receive approximately \$140 million in 2016/17 to help fund hospital payments in MA fee-for-service.
- Extend the budget adjustment factor for nursing facility rates through June 30, 2019. The budget adjustment factor caps the MA per diem rates paid to nursing facilities to appropriated budget amounts, thereby containing the growth in state expenditures. Without the budget adjustment factor, the budget would require approximately \$300 million more to reimburse nursing facilities under the uncapped case-mix payment methodology established by state regulation.

adults enroll instead in the expanded Medicaid program.

### **MA Rates/Payments**

The budget increases reimbursement rates for pediatric shift nursing services, providing \$5/hour more in the fee-for-service program, effective July 1, 2016. It also increases rates in the managed care program, effective Jan. 1, 2017.

Additionally, \$8 million is in the budget to continue funding Medical Assistance day-one incentive payments to qualified non-public nursing facilities. We will know more about other provider rates (including managed care monthly rates and nursing facility per diem rates) after DHS releases its 2016/17 re-budget.

### **MA Waiver Programs**

State General Fund spending totals \$2.25 billion for the seven appropriations that pay for the various Medicaid waiver programs for seniors and individuals with disabilities (home and community-based services, long-term care managed care, intellectual disabilities-community waiver program, autism and intervention services attendant care, and services to persons with disabilities). These programs, which enable people to live in their homes and communities rather than in a nursing home or intermediate care facility, are receiving \$151 million more compared to 2015/16.

Funds budgeted for intellectual disabilities will serve an additional 250 individuals on the emergency waiting list and 700 graduates from special education (the governor initially proposed serving 500 graduates). However, the budget does not fund the governor's initiative to serve an additional 100 adults diagnosed with autism. The exact number of seniors and adults with physical disabilities who are receiving services will be revealed following the department's 2016/17 re-budget.

### **Community HealthChoices**

The budget reflects DHS' May decision to delay implementing phase one of the governor's long-

term care managed care initiative, pushing back the start date in the 10 southwest counties from Jan. 1, 2017 to July 1, 2017. Community HealthChoices will use managed care organizations to provide coordinated physical health care and long-term services for seniors, persons with physical disabilities, and Pennsylvanians who are dually eligible for Medicare and Medicaid. The initiative is expected to improve efficiencies in the MA long-term care system and generate savings in the outyears by reducing preventable admissions to hospitals, emergency departments, nursing facilities and other high-cost services.

The governor's February budget proposal included \$43 million for six appropriations to fund the first phase of this initiative. Because the program will not begin serving enrollees until 2017/18, the only funding included in the 2016/17 budget for Community HealthChoices is \$8 million for various administrative functions needed for the program's successful implementation (developing and designing critical IT systems; and adding staff to oversee contract compliance, provider rates, quality control).

### **MA Cash Flow**

Should state General Fund appropriations be insufficient for DHS to meet its MA payment obligations, the General Assembly added Section 2112 to Act 16 of 2016 authorizing the governor's administration to use Workers' Compensation Security Fund revenue. This is similar to a provision added to the Fiscal Code regarding the department's 2006/07 MA budget. Section 2112 requires the budget secretary to certify the expected deficiency, and notify the chairs of the appropriations committees by May 1, 2017. The chairs may request additional information or data to verify the deficiency, and the secretary must provide the requested information prior to expending funds. Any amount transferred from the Workers' Compensation Security Fund must be repaid within 90 days.

The 2016/17 budget maintains hospital payments for burn centers, OB/neonatal services and trauma centers at 2015/16 levels. There is a state funding increase of \$1.3 million for critical access hospitals, which reflects the addition of two more rural hospitals that meet the federal criteria for critical access.

## Medical Schools

The budget increases payments to medical schools through the appropriations for academic medical centers and physician practice plans. The table below compares state payments budgeted to qualifying medical schools in 2015/16 and 2016/17. These payments earn federal Medicaid matching funds. University of Pittsburgh Medical School-Shadyside is receiving the largest state appropriation for academic medical centers at \$5.85 million (table) while Drexel University is receiving the most, \$2.75 million, among physician practice plans.

<i>amounts in millions</i>		
Appropriation/Medical School	Budgeted State Payments	
	2015/16	2016/17
<b>Academic Medical Centers:</b>		
UPMC Presbyterian Shadyside	\$5.35	\$5.85
Temple University Hospital	\$2.99	\$2.99
Penn State - Hershey Medical Center	\$2.99	\$2.99
Penn State - HMC - Centre County	\$2.50	\$3.50
Commonwealth Medical College	\$2.00	\$3.00
Lake Erie College of Osteopathic Medicine	\$0.80	\$1.80
Philadelphia College of Osteopathic Medicine	\$0.80	\$1.05
<b>Physician Practice Plans:</b>		
Drexel	\$2.75	\$2.75
University of Pennsylvania	\$1.55	\$1.55
Thomas Jefferson	\$2.27	\$2.27

## Mental Health

The state appropriation for mental health services – which funds the state mental hospitals operated by DHS and community programs administered by counties – increases \$20.97 million to \$789 million in 2016/17. Most of the increase covers higher personnel costs at the state hospitals. Part of the increase will be provided to county programs to fund community placements for individuals transferred from state hospitals, pursuant to a settlement agreement.

The 2016/17 budget does not increase base funding to counties for the community program but it maintains the 10 percent, \$55 million cut enacted in 2012/13 during the Corbett administration.

## County Human Services

The budget does not restore any of the funding cuts made in 2012/13 to county human services programs. Consequently, the 10 percent, \$84 million cut for the following county-run human services programs continues:

- Community mental health services (funded through the mental health services appropriation, described above),
- Community intellectual disability base program,
- Behavioral health services (funds mental

- health service and drug and alcohol treatment),
- Act 152 drug and alcohol treatment services (funded through the MA fee-for-service appropriation),
- County child welfare special grants (funded through the county child welfare appropriation),
- Homeless assistance, and
- Human services development fund.

## Child Welfare

State funding for county child welfare increases by \$197 million, reflecting the switch instituted last year to budget funds based on cash flow, rather than on accrual, to generate one-time savings. The 2016/17 county child welfare appropriation funds the remaining payments to counties for 2015/16 and includes an additional \$25.6 million for increases in counties' needs-based budgets.

Moreover, language in the General Appropriations Act stipulates that the aggregate child welfare needs-based budget allocation for fiscal year 2016/17 is \$1.82 billion, which is the same as the expenditure level certified by DHS, and represents a 4.5 percent increase over the aggregate level for 2015/16.

## Child Care

The enacted budget reduces state funding for child care services by \$20 million but replaces these dollars with federal funds. The General Assembly did not fund the governor's proposed initiative to reduce the child care waiting list for low-income families.

## Insurance Department

The establishment of the Insurance Regulation and Oversight Fund in Act 46 of 2013 – coupled with the transfer of CHIP, the Children’s Health Insurance Program, to the Department of Human Services – has left the Insurance Department with no direct General Fund appropriations. The agency’s GGO appropriation, funded by the Insurance Regulation and Oversight Fund, is \$390,000, or 1.6 percent, higher than 2015/16 to support continuing operations.

## Department of Drug and Alcohol Programs

The 2016/17 budget increases funding to the appropriation for assistance to drug and alcohol programs by \$750,000, or 1.7 percent. The program directs funding to single county authorities that provide support, prevention and treatment services in communities.

## Tobacco Settlement Fund

The 2016/17 budget spends \$378.7 million from the Tobacco Settlement Fund, of which:

- \$69.5 million is non-recurring revenue, which includes \$20.95 million from the 10<sup>th</sup> and final strategic contribution payment anticipated in April 2017, and \$48.5 million from balances in the Tobacco Settlement Fund, and
- \$309.2 million from the annual payments Pennsylvania anticipates from tobacco companies in 2016/17, an \$8.4 million decrease from 2015/16.

The table nearby details Tobacco Settlement Fund expenditures by agency and program.

Expenditures for health-related programs such as long-term care (Department of Human Services) and life sciences greenhouses (Department of Community and Economic Development) are appropriated from the Tobacco Settlement Fund as part of the General Appropriations Act. All other program expenditures are made by executive authorizations as determined by the formula in the Fiscal Code that allocates annual tobacco payments to specific programs and do not require appropriations by the General

Assembly. Due to the anticipated decrease in annual tobacco payments, 2016/17 executive authorizations are less than 2015/16.

As proposed by Gov. Wolf, the General Assembly amended the statutory formula for distributing annual tobacco payments by eliminating the PACENET allocation and increasing the funding allocation for health-related purposes. This is the fourth consecutive year in which no tobacco funds have been budgeted for PACENET, reflecting sufficient revenue in the Pharmaceutical Assistance Fund to pay the projected state expenditures for the PACENET program.

Specifically, Act 85 of 2016 amended the Fiscal Code to eliminate the 8 percent allocation for PACENET and increase the allocation for health-related purposes from 22.7 percent to 30.7 percent. This change redirected \$24.7 million to long-term care (the appropriation that funds nursing home care for Medical Assistance recipients). In addition to these redirected dollars, the bill authorized prior year funds to be appropriated for health-related purposes, increasing tobacco funds for long-term care by another \$20 million.

Act 85 also transfers \$28.5 million from the Tobacco Settlement Fund to the General Fund. This is the fourth time since the fund was created in 2001 that tobacco money has been transferred to help balance the General Fund budget.

<i>(amounts in millions)</i>		
	2015/16	2016/17
Tobacco Settlement Fund Expenditures	Actual	Budgeted
Department of Health:		
Tobacco Use Prevention and Cessation	\$14.29	\$13.91
Health Research - Health Priorities	\$40.02	\$38.96
Health Research - National Cancer Institute	\$3.18	\$3.09
Department of Human Services:		
Home and Community-Based Services	\$41.29	\$40.20
Hospital Uncompensated Care	\$25.98	\$25.29
Medical Assistance for Workers with Disabilities	\$95.28	\$92.76
Department of Aging:		
PACenet Transfer	\$0.00	\$0.00
Health-Related Purposes:		
Medical Assistance - Long Term Care	\$116.08	\$132.94
Life Sciences Greenhouses	\$3.00	\$3.00
Transfer to General Fund		\$28.50
<b>TOTAL</b>	<b>\$339.11</b>	<b>\$378.66</b>



More information on the Tobacco Settlement Fund will be provided in a separate budget briefing at [www.hacd.net](http://www.hacd.net).

## Lottery Fund

Senior programs funded with \$1.3 billion from the Lottery Fund are getting \$43 million more in the 2016/17 budget. (Table, adjacent column, details expenditures by agency and program)

Expenditures for programs administered by the Department of Aging and the Department of Human Services are appropriated from the Lottery Fund as part of the General Appropriations Act. Expenditures for programs administered by the Department of Revenue and

the Department of Transportation are made by executive authorizations that do not require the General Assembly's approval.

- Per the governor's request, PennCARE will serve an additional 300 older Pennsylvanians with attendant care services with its \$2.5 million increase.
- An additional \$30 million is transferred to the Pharmaceutical Assistance Fund to support prescription drug assistance for more than 250,000 seniors in 2016/17.
- The Property Tax and Rent Rebate will help an estimated 578,000 households this fiscal year.

The 2016/17 budget uses \$308 million in Lottery Fund

<i>(amounts in millions)</i>	
<b>Agency/Appropriations</b>	<b>Budget 2016/17</b>
<b>Department of Aging:</b>	
PennCARE	\$325.25
Pre-Admission Assessment	\$19.92
Caregiver Support	\$12.10
Pharmaceutical Assistance Fund	\$205.00
Grants to Senior Centers	\$2.00
Alzheimer's Outreach	\$0.25
<b>Department of Human Services:</b>	
Medical Assistance Long-Term Care	\$184.08
Home and Community Based Services	\$120.67
Medical Assistance Transportation	\$3.30
<b>Department of Revenue:</b>	
Property Tax and Rent Rebate	\$289.90
<b>Department of Transportation:</b>	
Free Transit	\$95.91
Shared Ride	\$82.98
<b>TOTAL</b>	<b>\$1,341.35</b>

revenue to help pay for Medicaid expenditures in the Department of Human Services. This is \$1.6 million less than 2015/16, reflecting the reduction in Lottery Funds for the Medical Assistance Transportation Program, and is \$193.5 million less than the record spending enacted under the Corbett administration in 2014/15.

*More detailed information on Lottery Fund expenditures will be shared in a separate budget briefing.*

## **Environment**

The 2016/17 budget provides a modest increase in funding to the Department of Environmental Protection. The General Fund portion of the agency's budget is \$148.3 million, which is a \$5.7 million, or 4 percent, increase over 2015/16 and is spread across DEP's operational appropriations.

After years of cutting General Fund support for DCNR and backfilling the department's budget with unpredictable oil and gas revenue, this budget continues the governor's supported shift from the Oil and Gas Lease Fund to the General Fund.

Although there are a few environmental investments, the budget plan reflects compromises to help balance the General Fund that we should monitor with caution.

To guard against the spread of the **Zika virus**, the spending plan appropriates \$5.3 million to West Nile Virus control, an increase of \$1.4 million, to control mosquito populations that tend to carry the virus that can be transmitted to humans.

The budget also provides a slight increase in Pennsylvania's contribution to the operating costs of the **Chesapeake Bay Commission**. Pennsylvania is now contributing \$275,000 to the commission, an increase of \$48,000, or 21 percent, over 2015/16. Despite the added revenue, the commission is still receiving \$10,000 less annually from the commonwealth

than it did in 2008/09.

Questionable policy decisions and transfers from environmental related accounts to help balance the state General Fund are provided for under Act 85:

- A \$5 million transfer from the Alternative Fuels Incentive Fund,
- A \$9 million transfer from the Recycling Fund, and
- Natural gas related provisions including a \$12 million transfer from the Alternative Energy Investment Act (Act 1 2008/9) to natural gas infrastructure development.

While funds are available to accommodate these transfers, this practice, if continued, could be detrimental to the Alternative Fuels Incentive Grant Program, to various recycling grants and initiatives, and to energy efficiency programs.

Act 85 contains a number of provisions related to natural gas development, including clarifying and providing additional funding for the Natural Gas Infrastructure Development Fund and amending the Oil and Gas Conservation law to protect Marcellus Shale drillers.

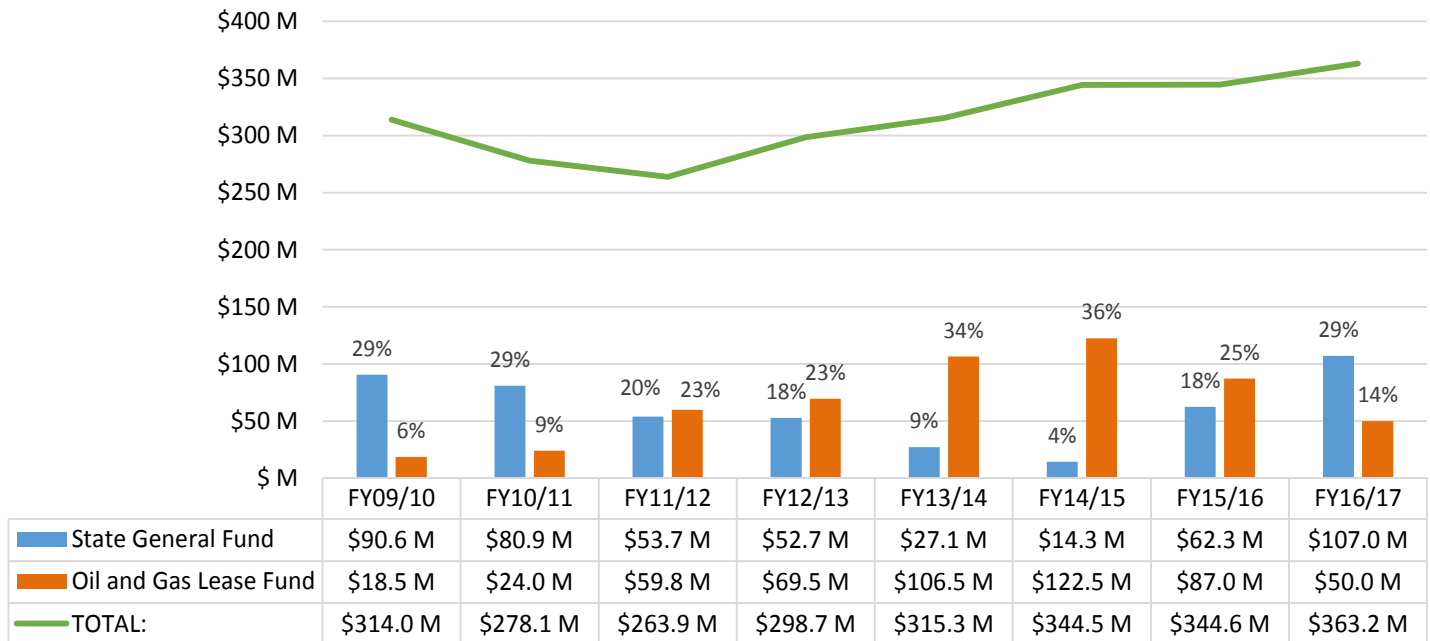
Under the **Natural Gas Infrastructure Development Fund**, \$24 million is available for natural gas projects. The Fiscal Code directs \$12 million to this fund in addition to the \$12 million made available earlier this year under Act 25 of 2016.

The \$24 million in funds transferred to the Natural Gas Infrastructure Development Fund is diverted from energy efficiency programs created by the Alternative Energy Investment Act that were originally intended for high performance buildings; specifically, for small businesses seeking to construct or renovate a facility, as well as for primary residences.

The original goal of the Alternative Energy Investment Act was to promote the development of buildings that optimize energy performance, use environmentally preferable building materials, and reduce pollutants and waste generation.

With these transfers now enacted into law, there are fewer dollars left to achieve these goals.

## DCNR Spending: State General Fund vs. Oil and Gas Lease Fund



Note: In addition to the two fund sources charted, total DCNR spending includes special funds, federal funds, augmentations, and other restricted funds. The chart displays State General Fund and Oil and Gas Lease Fund spending, as a percentage of total funding.

Act 25 created the Natural Gas Infrastructure Development Fund within the Pennsylvania Treasury Department, but the Fiscal Code clarifies that the fund will instead be located in the Commonwealth Financing Authority. CFA is to provide grants to hospitals, businesses, municipalities, counties, school districts, or economic development organizations for projects expanding access to natural gas infrastructure. Grants may be for \$1 million or 50 percent of the project cost, whichever is less.

Act 85 also is written to protect the oil and gas industry in the Marcellus Shale region from inadvertent penalties under the Oil and Gas Conservation law (Act 359 of 1961). The new language exempts Marcellus Shale drillers from Act 359 (enacted to promote the responsible development and production of natural oil and gas resources in the commonwealth) if they inadvertently penetrate the Onondaga horizon, which is a geologic formation sandwiched between the Marcellus Shale and the deeper Utica Shale. The change works to protect the rights of owners of oil and gas wells, and prevent waste or loss in resource recovery.

Prior law required oil and gas operators who intentionally or accidentally penetrated the Onondaga horizon to obtain an additional permit and pay an additional \$5,000 fee.

The budget continues the Wolf administration's policy of shifting operating costs for the Department of Conservation and Natural Resources away from the volatile Oil and Gas Lease Fund and back to the state General Fund. This action has been necessary because steadily declining market prices for natural gas have depressed revenues from rent and royalty payments to the Oil and Gas Lease Fund and increasing reliance on it to fund DCNR over the past six years has created fiscal instability within the fund.

The 2016/17 budget provides \$363.2 million for DCNR, a net increase of \$18 million, or 5 percent, when all funding sources are accounted for, based on current estimates.

Of DCNR's total, \$106.9 million is from the General Fund, an increase of \$44.6 million compared with 2015/16 and the result of the transition of funding sources from the Oil and Gas Lease Fund to the General Fund. DCNR will receive \$50 million from the Oil and Gas Lease Fund in 2016/17, or \$35.5 million (42 percent) less than 2015/16.

The General Fund will now provide 29 percent of total department funding, while the Oil and Gas Lease Fund will provide 14 percent.

The budget takes additional action to help keep the Oil and Gas Lease Fund solvent by reducing Act 13 transfers from the fund. Specifically, the Environmental Stewardship Fund will receive a \$20 million transfer (\$15 million reduction), while the Hazardous Sites Cleanup Fund will receive a \$5 million transfer (\$10 million reduction). An Environmental Stewardship Fund transfer reduction also occurred in 2015/16. Act 85 also slightly alters the mandated distribution percentages from the Environmental Stewardship Fund.

The reduced revenue for the Environmental Stewardship Fund, as a result of less revenue for the Oil and Gas Lease Fund, means less funding for the conservation of agricultural land, park and forest rehabilitation, community conservation grants, watershed protection and restoration, and funds for stormwater, water, and sewer grants through PennVEST.

## **Transportation**

The 2016/17 budget includes \$6 billion in state funding from user based taxes, primarily Motor License Funds, for the Department of Transportation, a decrease of \$206 million, or 3.3 percent, over 2015/16.

The drop in funding is largely driven by a net reduction of \$181 million for public transportation (\$227 million asset improvement decrease offset by a \$46 million increase for operating subsidies) and a \$25 million net reduction in spending for highway and bridge improvements and maintenance.

Related to the \$227 million decrease in public transportation funding for asset improvements, please note that in 2015/16 an accumulated fund balance in the Public Transportation Trust Fund was distributed, triggering a larger than usual allocation this year. Normal spending levels from the fund are expected to resume in 2016/17.

## **Motor License Fund**

Beginning in 2017/18, Act 85 orders a 10-year phase-down of funding for the state police from the Motor License Fund, through incremental, annual decreases of four percent to either the greater of \$500 million or 60 percent of the total amount appropriated from the fund to state police in 2016/17. This will have implications for transportation funding, as well.

A similar proposal was offered by the Transportation Funding Advisory Commission of 2011, which suggested phasing in the then cap of \$300 million over five years. In testimony this year by PennDOT Secretary Leslie Richards to the House Transportation Committee (Feb. 8, 2016), Richards estimated that if that plan were implemented, \$6.7 billion would be made available for construction and maintenance between 2016/17 and 2027/28.

## **Law Enforcement, Public Safety, Justice**

### **Corrections**

The budget increases funding for the Department of Corrections by \$152.9 million or 6.8 percent over 2015/16. At \$2.4 billion, the department's total appropriation is 7.6 percent of the \$31.53 billion General Fund.

A significant portion of DOC's new revenue is required to cover rising personnel costs spurred by a Disability Rights Network of Pennsylvania lawsuit and an arbitration agreement with the corrections officers' union. Pension costs have also increased to \$277 million.

The arbitration agreement with the Pennsylvania State Corrections Officers Association means members of PSCOA will receive a 3 percent salary increase twice in 2016/17 (July 1 and Jan. 1). The pay increases also equal 18 percent, or \$27 million, of the department's new costs.

The Disability Rights Network filed suit in 2013 and a

federal Department of Justice investigation followed. Justice closed its investigation and the lawsuit settled in 2015 with recommendations for staffing, improvements to mental healthcare, and use of solitary confinement. To implement these changes Corrections added 69 new positions at an estimated cost of \$6.8 million.

**Executive Offices: Commission on Crime and Delinquency**

The budget includes \$4.6 million for the Pennsylvania Commission on Crime and Delinquency. This is 4.6 percent more than PCCD’s 2015/16 appropriation. The commission administers funds (\$212 million in 2016/17) for criminal justice planning, coordination for intermediate punishment, victim services, violence prevention, and child advocacy centers.

Intermediate punishment programs are flat funded at \$18.2 million while the Fiscal Code now requires at least 80 percent of these funds go to drug and alcohol treatment programs. Intermediate punishment programs reduce corrections costs by keeping non-violent offenders out of prison.

The budget replaces direct funding for child advocacy centers with appropriations from the Penn State Settlement (endowment fund) and a restricted receipts account for birth certificate fees. Combined allocations from these funds to child advocacy centers are expected to be at least \$3 million annually.

More than half of all funds administered by PCCD come from federal grants and appropriations. The largest federal appropriation, crime victims’ assistance, has doubled in each of the past two years.

Juvenile probation services provides grants to 66 counties, and its \$18.9 million appropriation from the General Fund is unchanged for the fourth straight year. Gov. Wolf recommended that the juvenile probation services line remain the same in 2016/17.

**Justice Reinvestment Fund**

The budget includes appropriations from the Justice Reinvestment Fund to support evidence-based practices and new initiatives designed to improve corrections outcomes, increase efficiency, and reduce long-term spending. Deposits into the fund come from savings realized through the enactment of Act 122 of 2012. Transfers and disbursements each increased more than threefold from \$3 million in 2015/16 to \$9.6 million in 2016/17.

**Board of Probation and Parole**

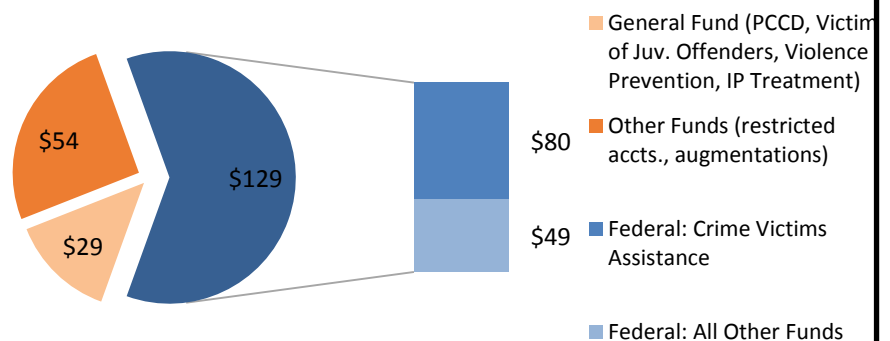
The Pennsylvania Board of Probation and Parole remains a distinct entity in the budget while legislation that would merge it with the Department of Corrections continues to be considered. The budget increases funding for the board by \$8.4 million, or 5.3 percent, so it can hire new field agents and increase the use of specialized caseloads.

The budget flat funds grant-in-aid money to support personnel costs in county adult probation departments (improvement of adult probation services) at \$16.2 million for the sixth consecutive year. The governor had recommended a \$3.3 million increase to restore funding to 2008 levels for this appropriation. Counties are responsible for the supervision of more than 85 percent of offenders on probation, parole or intermediate punishment.

**State Police**

The budget increases state police funding by \$57.6 million, or 5.8 percent. Of the new support, \$11 million is appropriated from the General Fund and \$46.6 million is

**Commission on Crime and Delinquency: Justice Planning and Coordination (amounts in millions)**



appropriated from the Motor License Fund. The overall share of state funds to state police from the Motor License Fund is 76 percent.

With its 2016/17 allocation, state police will use \$7.2 million to complete the training of two cadet classes that began in 2015/16, and three new cadet classes this year. Once graduation is held, 180 new cadets and 192 new troopers will begin service in 2016/17. The new troopers mean an additional expense of \$14.2 million.

If the current training schedule persists, state police warns that there will not be enough new graduates to replace the 2,000 troopers who will be eligible to retire over the next three years.

Act 85 orders a 10-year phase-down of funding for state police from the Motor License Fund, beginning in 2017/18, through incremental, annual decreases of four percent to either the greater of \$500 million or 60 percent of the total amount appropriated from the fund to state police in 2016/17.

The appropriation from the Motor License Fund to the state police in 2016/17 is \$801.7 million (60 percent of this amount would be \$481 million). Therefore, the funding for state police will be capped at \$500 million.

The General Fund and the Motor License Fund make up five-sixths of a state police budget that has grown at an annual rate of 5.1 percent over the past 15 years. This means that in 2017/18 and beyond, the commonwealth will have to choose to reduce spending on state police or find a new way to pay for increases to the budget that have been annually funded by the Motor License Fund.

Two options to maintain current spending growth for the agency would be to absorb annual cost increases within the General Fund (likely an increase of more than \$52 million in 2017/18, or 22 percent more than this year), or raise new revenue through legislation. Bills have been introduced in the past two legislative sessions to require reimbursements from local municipalities for full- or part-time police coverage provided by state police.

According to the Department of Community and Economic Development, which maintains municipal policing statistics, half of the commonwealth's 2,562 municipalities now rely entirely on state police coverage.

## Judiciary

The 2016/17 budget increases funding for the judiciary by \$13.07 million, or 3.8 percent, to \$355.5 million. The Pennsylvania Supreme Court, Superior Court, Commonwealth Court, and the Court of Common Pleas are included in this account, as are some lower-level courts and some unified judicial functions.

The budget provided no new programmatic funding, but will allow the judiciary to meet its rising personnel costs.

## Military & Veterans Affairs

The commonwealth's six veterans' homes will be the biggest beneficiary of the Department of Military and Veterans Affairs' \$13.77 million, or 10.4 percent, increase in 2016/17. The appropriation for the homes is \$10.43 million, or 11.3 percent more than the prior fiscal year. Total state spending on the department is now \$145.82 million.

With additional federal funding and augmentations, the veterans' homes will provide care and services to 1,434 Pennsylvania veterans in 2016/17.

Other areas within the department that are getting more support in 2016/17 include veterans pensions, educational assistance for veterans and their children, transportation, and other outreach to veterans.

Combined, these appropriations are getting \$3.1 million, 19.4 percent more.

## Row Offices

### Attorney General

The budget slightly decreases spending for the attorney general by \$94,000, or 0.1 percent, to \$95.58 million. However, some important appropriations within the department are increasing, such as Child Predator Interception Unit, \$134,000 or 3.1 percent; and tobacco law enforcement, \$586,000 or 43 percent.

## **Auditor General**

The auditor general and the Board of Claims will see a slight increase in 2016/17 of \$1.92 million, or 4.1 percent. The total budget is \$48.2 million, including \$3 million to modernize the auditor general's IT platforms. That increase will also help the auditor general take over some duties of the Public Employee Retirement Commission with respect to the public pension systems of Pennsylvania's municipalities.

The Board of Claims arbitrates contract disputes involving the commonwealth.

## **Treasury**

The Treasury Department is receiving \$20.19 million, or 1.7 percent, less this fiscal year. However, of the total \$1.61 billion budgeted for Treasury, 69 percent of that, or \$1.11 billion, is for general obligation debt service, but is \$16.11 million less than 2015/16's allocation.

The budget includes \$1.5 million for the ABLE Savings Program Fund. Pursuant to the Pennsylvania Achieving a Better Life Experience Act of 2016, Treasury establishes and administers a program of tax-exempt savings accounts for Pennsylvanians with disabilities and their families.

The 2016/17 fiscal code amendments change the rules for the unclaimed property program administered by the Treasury Department, including changing the reporting requirements on property holders and the treasury, adding a specific process for treasury to take possession of unclaimed US savings bonds, and changing the rules for retirement and other investment accounts.

## **Lieutenant Governor**

The 2016/17 budget increases the appropriation for the lieutenant governor and the Board of Pardons by \$132,000, which is an 8.1 percent increase and brings the total combined budget to \$1.76 million.

## **Community and Economic Development**

The 2016/17 budget provides targeted reinvestment in several program areas within the Department of Community and Economic Development. Accounting for the transfer of the Commonwealth Financing Authority debt service repayment to a separate account outside of the department, the enacted budget represents an increase of \$10.6 million, or 4.7 percent, over the prior fiscal year.

Over the past several years, DCED's General Government Operations appropriation has faced serious cuts and limited restoration, which has been further exacerbated by the consolidation of program administration under this appropriation. The 2016/17 budget not only increases funding for the agency's GGO appropriation by almost \$3 million (19.8 percent), but it also reestablishes an independent appropriation for Base Realignment and Closure, or BRAC, activities that had been consolidated under DCED's budget for the past several years.

The 2016/17 enacted budget provides an additional \$1 million (total of \$2.8 million) to support early intervention strategies for distressed municipalities and help them avoid Act 47 protections. This 56 percent increase would, primarily, be dedicated to financial planning and blight remediation efforts.

Additionally, the enacted budget shifts the portion of the capitol fire services grant for Harrisburg (contained within the Center for Local Government Services at \$4.5 million) to the Department of General Services. The entire \$5 million grant program is now under DGS.

The new budget also transfers the local municipal emergency relief program from the Pennsylvania Emergency Management Agency to DCED, which better aligns with the department's experience in grant administration and management.

Introduced last year to provide funding support for the papal visit to Philadelphia, the budget provides an additional \$5 million to "regional events security and support." The total \$10 million appropriation will be evenly split between reimbursements for security and other government operational costs associated with a previous papal visit and the Democratic National Convention.

## Commonwealth Financing Authority

The 2016/17 budget moves the bond obligations repayment for the Commonwealth Financing Authority out of the Department of Community and Economic Development. In lieu of this appropriation, a new restricted-revenue account will fund debt service for bonds managed by CFA. This new account is to be funded through sales and use tax revenues, and this dedicated funding source should secure a better rating for the debt on the bond market.

Additionally, the budget package includes language transferring funds from two existing CFA programs to recapitalize Business in Our Sites, which is a financing program providing low-interest loans to support the growth and relocation of businesses. A total of \$75 million will be transferred into BOS, with \$50 million from the First Industries Fund and \$25 million from Building Pennsylvania.

Business in Our Sites has seen significant return on investment and holds the potential for greater participation.

## General Services

The budget includes \$119.3 million in General Fund support for the Department of General Services. This is a decrease of \$5.7 million, or 4 percent, from 2015/16. The most significant decrease in DGS spending is within its GGO appropriation, which shrinks by nearly \$10 million from \$63.2 million to \$53.5 million. This 15 percent decrease is the result of the department's public works modernization effort and use of bond funds to pay for staff and operations related to capital budget projects. Other states use this streamlined approach.

A drop in the expected costs of leasing property prompted a \$930,000, or 3.7 percent, decrease in DGS' appropriation for rental and municipal charges. The department will now receive \$24.5 million for these purposes.

The budget also consolidates DCED's Center for Local Government Services appropriation for capitol fire protection with a smaller

appropriation, bringing total capitol fire protection funding to \$5 million.

## Agriculture

The Department of Agriculture will receive \$143.6 million in its 2016/17 General Fund budget, an increase of \$6.8 million, or 5 percent, over 2015/16. The vast majority of the department's administrative, personnel and programmatic offices are funded via its GGO appropriation, and this budget provides \$29.37 million for general government operations, an increase of \$1.7 million, or 6 percent, over 2015/16.

Ag will receive an extra \$2 million for **avian flu preparedness and response**. The budget will also direct \$800,000 for avian flu research. No case of the highly pathogenic avian influenza has been reported in Pennsylvania at the time of this publication. However, the spread of avian flu last year raises serious concerns about the virus entering Pennsylvania and inflicting damage on farmers and the rural economy. Pennsylvania has not suffered an outbreak of avian flu since 1983/84.

The 2016/17 budget also provides \$19.18 million for the **State Food Purchase Program**, an increase of \$750,000, or 4 percent, over the prior fiscal year, and includes up to \$1 million for the continuation of the **Pennsylvania Agricultural Surplus System**, or PASS, to better connect food producers with those in need, is included in that appropriation.

The State Food Purchase Program supports food banks and other entities providing nutritional assistance to residents. According to Hunger-Free Pennsylvania, costs associated with hunger in Pennsylvania have increased by \$1 billion since 2007 while an estimated 1.8 million Pennsylvanians do not have reliable access to a sufficient quantity of affordable, nutritious food.

This budget also provides \$51.8 million to **Penn State University** to maintain its agriculture extension operations. This appropriation is a \$1.2 million, or 2.5 percent, increase in the Agricultural College Land Scrip Fund transfer.

The **University of Pennsylvania** is receiving a 2.5 percent increase in its appropriation for veterinary activities, as well, to \$30.4 million. This includes \$281,000 for the university's Center for Infectious Disease.



The final budget also includes modest increases in the various grants administered by the department, including agricultural research, agricultural excellence, and those appropriations promoting agriculture trade shows.

The 2016/17 budget takes steps to promote farm operations as more farmers begin to retire. Amendments to Act 85 authorize Ag to use up to \$165,000 of unspent Agricultural Conservation Easement Purchase Fund financing for **farm succession planning grants**.

Grants would be capped at \$3,000 and the department would work with the state Agricultural Land Preservation Board to determine grant criteria. Prospective farmers face considerable capital costs and other obstacles to entering the industry, and these grants are intended to help sustain farm operations.

The Tax Code increases the transfer from the cigarette tax to the **Agricultural Conservation Easement Purchase Fund** to \$25.49 million annually from cigarette tax revenues, an increase of \$5 million.

The Tax Code also exempts agriculture conservation easement land from the realty transfer tax to shelter farms that are awaiting easement purchase funds from additional realty transfer levies, and it provides sales and use tax exemptions for timber operations intended to support the hardwoods industry.

## **Emergency Management Agency**

The Pennsylvania Emergency Management Agency is receiving \$13.6 million, which is \$2.7 million, or 16 percent, less than its allocation in 2015/16.

Of this total, PEMA will use \$10.9 million for security and emergency preparedness, an increase of \$635,000, or 6 percent, over 2015/16. Funding for the State Fire Commissioner is \$2.29 million, which is an increase of \$141,000, or 6 percent.

Funding for local municipal emergency relief is \$3 million but is being moved from PEMA's budget to DCED. Finally, the budget removes \$500,000 for disaster relief projects.

## **Labor and Industry**

The 2016/17 budget increased funding for the Office of Vocational Rehabilitation by \$2 million to \$47.47 million to help Pennsylvanians with disabilities gain employment. This investment will leverage additional federal matching funds.

Combined with a \$5 million increase in the 2015/16 budget, OVR will be able to help high school students with disabilities get work experience as they prepare to transition to life after school and live independently in their communities.

Also, under the Department of Labor and Industry, the centers for independent living remained level-funded, as did the two assistive technology appropriations that support the statewide lending-library program for individuals who want to try equipment before purchasing, and the alternative financing program supporting low-interest loans, loan guarantees and other supports for Pennsylvanians with disabilities looking to buy assistive technology devices and services.

New Choices/New Options received the same appropriation as in 2015/16.

## Revenue Package Summary

(amounts in millions)

Revenue Source	Description	Effective	2016/17	2017/18
<b>Tax Code - Act 84 of 2016 (House Bill 1198)</b>				
<b>Sales and Use Tax</b>				
Timbering Exclusion	Similar to exemption for farming, the business of producing or harvesting trees for commercial production of wood, paper or energy products now exempt from sales tax.	7/1/2017	\$ -	\$(2.5)
Digital Downloads and Streaming Video and Audio	Sales and use tax will be imposed on digital downloads of books, music, photographs, games, audio, apps, canned software, satellite radio, streaming video and audio.	8/1/2016	\$46.9	\$59.2
Corrugated Boxes Exclusion	Corrugated boxes used to deliver manufactured snack food products exempt from sales and use tax.	Immediate	\$(0.8)	\$(0.9)
Convention Center Exclusion	Services related to set up or tear down of property rented by an authority to exhibitors at a convention center exempt from sales tax.	7/1/2016	\$(0.1)	\$(0.1)
Sales and Use Tax Vendor Discount	Current 1% discount on timely filed returns capped at \$25/return for monthly filers, \$75 for quarterly, \$150 for semiannual (total \$300/year). Businesses with taxable sales of \$500,000 or less unaffected.	8/1/2016	\$55.5	\$69.2
Automated Suppression ("Zapper") Devices	Automated sales suppression devices specifically enumerated in crimes section of Tax Code to give Department of Revenue greater enforcement authority to prevent use of devices that delete portion of taxable sales from sales records.	Immediate	Unknown Revenue Gain	
<b>Personal Income Tax</b>				
Personal Income Tax on Lottery Winnings	PIT imposed on cash prizes of the PA Lottery. Non-cash prizes of PA Lottery remain exempt.	1/1/2016	\$15.8	\$13.6
Intangible Drilling Costs	Technical clarifications with no fiscal impact.	Immediate	\$ -	\$ -
Conversion of Property	Section 1033 of Internal Revenue Code applied to conversion of property that is compulsorily or involuntarily converted (as result of destruction, condemnation, etc.) so that no gain is recognized.	60 Days	Unknown Revenue Loss	
Tuition Account Program (TAP) Checkoff	Income tax returns to have checkbox allowing taxpayers to designate tax refunds to a TAP.	2016 Tax Returns	\$ -	\$ -
<b>Corporate Net Income Tax</b>				
Filing Deadline Change	Filing date for corporate returns changed from April 15 to 30 days after due date for a corporation's federal return.	Immediate	\$ -	\$ -
Amended Returns	Taxpayers may file amended return to bring a correction to attention of Department of Revenue no more than three years after original due date.	1/1/2017	\$ -	\$ -

## Revenue Package Summary

(amounts in millions)

Revenue Source	Description	Effective	2016/17	2017/18
<b>Bank Shares Tax</b>				
Bank Shares Tax Rate Increase	Rate is increased from 0.89% to 0.95% for calendar year beginning Jan. 1, 2017, and each year thereafter. Corrections, clarifications to definition of goodwill and method 1 apportionment were made relating to changes in Act 52 of 2013.	1/1/2017	\$23.5	\$24.8
Edge Act Exclusions	Banks can exclude 20% of book value of total equity capital of foreign subsidiaries from taxable income for year beginning Jan. 1, 2018. There is a 5-year phase-in allowing additional 20% exclusion/year.	1/1/2018	\$ -	\$(2.9)
<b>Gross Receipts Tax</b>				
Managed Care Organization	Necessary repeal of language related to gross receipts tax on managed care organizations due to expire.	1/1/2017	\$ -	\$ -
<b>Realty Transfer Tax</b>				
Veterans' Organizations	Exempts veterans' organizations from realty transfer tax	60 Days	Unknown Revenue Loss	
Easement and Land Bank Transfers	Exempts transfer of agricultural conservation easements and transfers to/from land bank from realty transfer tax.	60 Days	Unknown Revenue Loss	
<b>Cigarette Tax</b>				
Cigarette Tax	\$1.00 per pack increase to \$2.60 per pack. Includes floor tax on inventory existing on effective date. Estimate includes sales tax generated on higher price of cigarettes.	8/1/2016	\$431.1	\$446.6
Agricultural Conservation Easement Fund Transfer	Current transfer of cigarette tax revenue from General Fund of \$20.48 million increased by \$5 million.	Immediate	\$(5.0)	\$(5.0)
Philadelphia Hold Harmless	If revenue from Philadelphia local cigarette tax is less than \$58 million/year, state will transfer difference between actual revenue and \$58 million to Local Cigarette Tax Fund.	Immediate	\$ -	\$ -
<b>Tobacco Products Tax</b>				
E-Cigarettes	40% of wholesale price imposed on vapor producing devices, liquid cartridges. Floor tax applies to inventory existing on effective date, payable within 90 days.	10/1/2016	\$13.3	\$21.3
Smokeless Tobacco	55 cents/ounce with floor minimum weight. Packages containing less than 1.2 ounces taxed as 1.2 ounces. Floor tax applies to inventory existing on effective date, payable within 90 days.	10/1/2016	\$48.2	\$75.4
Roll-Your-Own Cigarettes		12/1/2016	\$3.1	\$6.5

**Revenue Package Summary**  
(amounts in millions)

Revenue Source	Description	Effective	2016/17	2017/18
<b>Tax Credits</b>				
Research and Development	Extends credit program. Removes expiration date.	Immediate	\$ -	\$ -
Film Tax Credit	Increases cap from \$60 million to \$65 million, adds post-production expenses as qualified expenses, allows for reissuance of unused credits.	7/1/2017	\$ -	\$(5.00)
Concert Rehearsal and Tour Tax Credit	Newly established tax credit for concert promotion/management companies for expenses incurred in PA for equipment/rehearsal for concert tours.	7/1/2017	\$ -	\$(4.00)
Video Game Production Tax Credit	New credit for video game production companies' production expenses. PA production expenses must be at least 60% of total production cost	7/1/2017	\$ -	\$(1.00)
Coal Refuse Energy and Reclamation Tax Credit	New tax credit for PA facilities generating electric from coal refuse in amount of \$4/ton of used refuse. If amount of approvable credits exceed cap, awards will be prorated to each taxpayer.	Immediate	\$(7.50)	\$(10.00)
Waterfront Development Tax Credit	New credit for businesses for contributions to waterfront development organization for use in development projects for up to 75% of contribution.	7/1/2017	\$ -	\$(1.50)
Job Creation Tax Credit	Expands qualifications of current program to allow businesses to claim credit of \$2,500 for a newly created job filled by a veteran (a change from previous amount of \$1,000 for newly created jobs filled by currently employed individuals).	Immediate	\$ -	\$ -
City Revitalization and Improvement Zones	Technical changes: expands to more eligible cities, adds hotel tax as allowable tax type, redefines calculations of increment & baseline of eligible taxes.	Immediate	\$(3.00)	\$(5.70)
Manufacturing Tax Credit	New tax credit awarded to manufacturing businesses for up to 5% of new taxable payroll when such payroll has expanded by at least \$1 million over 4-quarter period. New jobs must be full-time, pay above the county average and continue for at least 5 years.	7/1/2017	\$ -	\$(4.00)
Rural Jobs and Investment Tax Credit	New tax credit for businesses that make a cash investment in rural growth fund, which would benefit a small rural business (fewer than 250 employees and fewer than \$15 million in net income).	7/1/2017	\$ -	\$(1.00)
Neighborhood Assistance Tax Credit	Expands qualifications of current program to allow businesses to claim a credit for contributions to neighborhood organizations that provide affordable housing, domestic violence or veterans' housing assistance.	Immediate	\$ -	\$ -

**Revenue Package Summary**  
(amounts in millions)

Revenue Source	Description	Effective	2016/17	2017/18
Neighborhood Improvement Zone	Makes technical changes addressing definition of master list, requires use of auditing firm, prohibits assessment of real estate tax, increases penalties, redirects hotel tax for new development of hotel properties within zone.	30 Days	\$ -	\$ -
Keystone Special Development Zones	Extends expiration date of current program to 2035.	Immediate	\$ -	\$ -
Keystone Opportunity Zones	DCED may designate up to 12 new zones; allows for possible extensions of current zones for additional 10 years.	Immediate	\$ -	\$ -
Mixed-use Development Tax Credit	New tax credit program run by PA Housing Financing Agency for mixed-use development projects. A mixed-use development fund also established to disburse payments to eligible projects. No appropriation has been made to this fund.	7/1/2017	\$ -	\$(2.0)
Keystone Innovation Zone	Current tax credit cap reduced from \$25 million to \$15 million as current cap not fully utilized.	Immediate	\$10.0	\$10.0
Brewers Tax Credit	Reinstates tax credit program that expired in 2008 for qualifying capital expenditures up to \$200,000. The program is capped at \$5 million.	7/1/2017	\$ -	\$(5.0)
Inheritance Tax - Family Farms	Clarifies inheritance tax exemption for transfer of family farms and farm trusts among members of same family. Applies to tax imposed as to a decedent whose date of death is after Dec. 31, 2012.	Immediate	\$(0.4)	\$(0.1)
Promoting Employment across Pennsylvania Tax Incentive	This tax incentive program, which would have allowed employers to retain personal income tax withheld for certain newly created jobs, was never utilized and is therefore repealed.	Immediate	\$5.0	\$5.0
<b>Table Games Tax</b>				
Table Games Tax	In addition to current table games tax of 12% (14% for first two years of operation) stated in Title 4, there will be a separate 2% tax on gross table game revenue, which will sunset in three years on June 30, 2019.	8/1/2016	\$16.8	\$17.1
<b>Tax Refund Program</b>				
Computer Data Center Equipment Incentive Program	New tax refund program for sales tax paid on computer data center equipment purchases for qualified centers. Program capped at \$5 million.	7/1/2017	\$ -	\$(5.0)
<b>Tax Amnesty Program</b>				
Tax Amnesty Program	During a 60-day amnesty during 2016/17, delinquent taxpayers able to have penalties and 50% of interest waived on delinquencies existing prior to Dec. 31, 2015.	Immediate	\$100.0	\$(25.0)
<b>Subtotal Net Tax Revenue</b>			<b>\$ 752.4</b>	<b>\$ 668.0</b>

<b>Fiscal Code - Act 85 of 2016 (House Bill 1605)</b>				
Table Games License Fee	Timing change to require sooner payment of \$24.75 million certificate fee for operating table games, which is assumed for 2nd Philadelphia casino. Fee is due by June 30, 2017, instead of at the time of operation.	Immediate	\$24.8	\$ -
Transfers to General Fund	Alternative Fuels Incentive Fund: \$5 million; Local Law Enforcement Block Grants: \$2 million; Recycling Fund: \$9 million; Tobacco Settlement Fund: \$28.5 million; Volunteer Companies Loan Fund: \$9 million; Building PA Pro-	Immediate	\$65.5	\$ -
Joint Underwriting Association Loan to General Fund	\$200 million shall be transferred from unappropriated surplus of PA Professional Liability Joint Underwriting Association (JUA), which shall be repaid over five years beginning July 1, 2018.	Immediate	\$200.0	\$(40.0)
<b>Public School Code - Act 86 of 2016 (House Bill 1606)</b>				
Educational Improvement Tax Credit	Increases cap from \$100 million to \$125 million/year. Program language repealed from Tax Code and moved to School Code.	2016/17	\$(25.0)	\$(25.0)
<b>Liquor Code - Act 39 of 2016 (House Bill 1690)</b>				
Liquor Modernization - Recurring Revenue	Flexible pricing, Sunday sales, customer relations management, for example.	8/8/2016	\$75.8	\$75.8
Liquor Modernization - Non-recurring Revenue	Non-recurring sources, including license surcharges, restaurant licenses auctions, casino license fees.	8/8/2016	\$73.2	\$ -
<b>Revenue Estimate Assumptions</b>				
Casino License Fee	The license fee for Live! Casino in Philadelphia is due on final approval by PA Gaming Control Board (per Title 4).	Expected in 2016/17	\$50.0	\$ -
<b>Subtotal Recurring Revenue</b>	<b>Includes Tax Code revenue except for tax amnesty program. Also includes Educational Improvement Tax Credit and portion of liquor modernization.</b>		<b>\$703.2</b>	<b>\$675.0</b>
<b>Subtotal Non-recurring Revenue</b>	<b>Includes tax amnesty program, liquor modernization fees, transfers, loans and gaming fees.</b>		<b>\$513.5</b>	<b>\$(65.0)</b>
<b>Total Net Revenue</b>			<b>\$1,216.7</b>	<b>\$610.0</b>