

# 2016/17 **BUDGET BRIEFING**

Report on Key Issues  
HOUSE APPROPRIATIONS COMMITTEE (D)

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## Gov. Wolf's 2016/17 Executive Budget Proposal

Please note: This document provides an overview of [Gov. Wolf's 2016/17 Executive Budget proposal](#). The House Appropriations Committee (D) will continue to review the budget proposal and provide briefings on specific issues and program areas, as more details become available.

Visit the Department of Education's website for spreadsheets detailing, by school district, the estimated basic and special education funding.

### Overview

Gov. Wolf's proposed 2016/17 state General Fund budget of \$32.7 billion increases state expenditures by \$2.2 billion, or 7.1 percent, after adjusting for proposed supplemental appropriations in 2015/16. This growth in spending assumes that a portion of Pennsylvania's payment to the school pension fund is moved into a special restricted revenue account beginning in the current year, 2015/16. Absent this change, the proposed 2016/17 state General Fund budget increases from \$30.8 billion to \$33.3 billion in 2016/17, which is an increase of \$2.4 billion, or 7.9 percent.

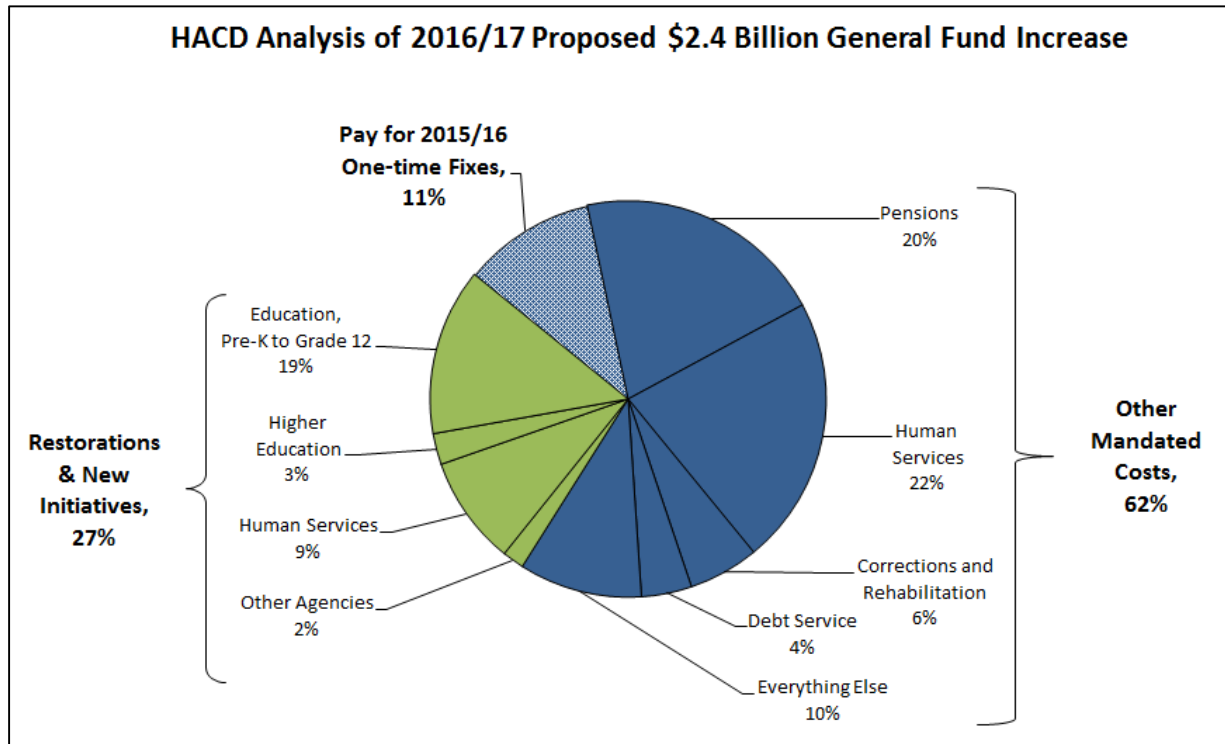
The governor's 2016/17 budget proposal is unique in that the current year's budget, 2015/16, has not yet been resolved. Therefore, the proposal is not only a plan for the upcoming budget, but an assumption about how the current year's budget is brought to a close.

A partial 2015/16 budget is in place under Act 10A of 2015, but that was based on a bill that did not reflect the late December bi-partisan agreement amongst the four caucuses. The act reflects significant line-item vetoes; therefore, leaving in place only a partial budget. Outstanding budget legislation to complete the 2015/16 budget includes the Fiscal Code, Capital Budget, Non-Preferred Appropriations for state-related universities and Penn Veterinary School, Tax Code and School Code.

**As a result, the 2016/17 Executive Budget assumes \$7.2 billion in supplemental appropriations to complete the 2015/16 budget. Comparisons made to the 2015/16 budget throughout this document primarily reflect that assumption.** The 2015/16 proposed supplemental appropriations are largely based on the late-December bipartisan agreement, with some exceptions. Proposed expenditures exclude smaller appropriations typically supported by the General Assembly, including earmarks and funds that restore the General Assembly's appropriations to the agreed-to amounts.

**The spending increase is largely driven by obligations that the commonwealth is legally required to pay**, as the following chart illustrates. Roughly 73 percent of the \$2.4 billion spending increase is due to adjustments for one-time unsustainable savings (11 percent) in 2015/16 that must be paid for in the budget year and other mandated costs (62 percent). **The balance of the increase (27 percent) is primarily driven by Gov. Wolf's commitment to restoring sharp cuts, largely cuts to education,**

enacted under the prior administration. Prominent increases in spending will level off after the budget year, as programs are fully restored and the required increases in contributions to the retirement systems level off.



In his budget proposal, Gov. Wolf maintains his commitment to restore cuts to PreK-12 education and county human services, and again implores the General Assembly to close the budget deficit. At the same time, he recognizes that **the General Assembly is faced with a sobering choice**: fix the structural deficit and provide enough extra revenue to restore significant cuts made under the last administration, or enact severe cuts that will have far reaching ramifications for the people of Pennsylvania.

- **The bottom line is Pennsylvania suffers from chronic budget deficits, and absent the General Assembly enacting recurring revenues, cuts to state programs will be excessive. The state programs that suffer the most will be education and human services, the only programs large enough to find the necessary funds.** Those cuts would cause trickle-down local tax increases, especially property tax increases. Both Republicans and Democrats in the General Assembly who are astute about the budget recognize this grim reality.
- Again, Gov. Wolf proposes to **reverse the cuts to school districts** as largely envisioned in the late December bipartisan budget agreement for 2015/16, with an additional commitment to further restorations in 2016/17. He continues to base his budget on the philosophy that education and economic prosperity are inextricably linked. He also asks the General Assembly to consider **charter reform measures** – a cyber only portion which is estimated to save school districts \$50 million annually beginning in 2016/17 and a brick and mortar and cyber charter portion which is estimated to save school districts \$180 million per year once fully phased-in in 2018/19.
- Again, he asks the General Assembly to **restore cuts to our county run human service programs** over three years beginning with the first down payment in the current year 2015/16, culminating in a final payment in 2017/18.

- He proposes to **implement the first stage of a statewide-managed long-term care program** (Community Health Choices) for seniors and adults with physical disabilities. When fully phased in, this program will significantly contain costs for the commonwealth.
- **The administration estimates that without corrective action, the 2016/17 budget will be out of balance by more than \$2 billion (structural deficit).** That assumes the commonwealth merely budgets to meet legally required obligations and just maintains other programs at current spending levels. Considering this, the proposal largely **avoids unsustainable sources of funds** to balance the budget, and **outlines a revenue package that garnered significant bipartisan support** in the December budget agreement. Included in that package is a **severance tax on natural gas** and a **modest personal income tax increase**, with expanded low-income relief provisions.
- His revenue estimates reflect continued strides toward **modernizing Pennsylvania’s Wine and Spirit system**, with an additional \$100 million for 2016/17. He does not propose to sell or lease the system.
- He reminds the business community that he fully supported and worked to maintain the final **phase-out of the Capital Stock and Franchise Tax**, despite tough economic times. The phase out began in 2000/01 under then Gov. Ridge. Now, after many fits and starts, businesses no longer will pay the tax beginning in 2016.
- Again, he asks the General Assembly to create a **dedicated special restricted revenue account** for Pennsylvania’s required payments to the **Public School Employees’ Retirement System (PSERS) Fund** to help ensure that the commonwealth fully meets its legally required payments. He recognizes that discussions continue in the General Assembly regarding pension plan revisions, but does not outline a proposal. He remains committed to making the **full, legally required pension payments** and does not seek to borrow money from the pension systems to balance the budget as was done under prior administrations. Also referenced in his budget proposal is his latest effort to abolish the Public School Employees Retirement Commission (PERC), citing redundant administrative functions; however, this move has become a subject of debate.
- The governor proposes to **increase the minimum wage from \$7.25 per hour to \$10.15 per hour**, tying future increases to inflation – which would lift many Pennsylvanians out of poverty and according to the administration, would generate about \$60 million in revenues.
- The governor **does not propose a property tax reduction plan** in this budget as he did last year, but he recognizes that without adequate school funding at the state level, many districts will have no choice but to increase local property taxes.

### Combined Operating Budget

Although much emphasis is placed on the General Fund budget, the combined operating budget provides the most accurate representation of spending trends. In recent years, governors have shifted spending among funds to help balance the most-watched General Fund budget. When you consider all funds (federal, state, special and other funds), the governor’s proposal represents a **total commonwealth operating budget of \$80.2 billion, including \$52.4 billion in non-federal funds.**

### General Fund

**Gov. Wolf’s proposed 2016/17 state General Fund budget of \$32.7 billion increases state expenditures by \$2.2 billion, or 7.1 percent** (after adjusting for proposed supplemental appropriations). Including

proposed transfers of partial PSERS payments to a restricted account, General Fund state expenditures of \$33.3 billion increase by \$2.4 billion, or 7.9 percent. Again a reminder that:

- Prominent increases in spending will level off after the budget year as programs are fully restored and the required increases in contributions to the retirement systems level off.
- The proposed budget assumes a supplemental appropriation to complete the partial budget already in place for the current year, 2015/16, and any comparisons made between years primarily reflect that assumption.

**The governor expects 2015/16 General Fund base revenues to meet the current forecast of \$30.9 billion.** That is not a surprise given that the Department of Revenue did not issue official revenue estimates until December 2015 due to the budget impasse. The Independent Fiscal Office (IFO) revised its estimates in January 2016 projecting the fiscal year will close with revenues just \$50 million above the official estimate. Although the IFO projects higher revenues, they are also projecting higher tax refunds. As a result, the net amount differs minimally from the administration. For more information on the IFO's budget outlook, see its [full report](#).

**Gov. Wolf's fiscal year 2016/17 state General Fund budget projects 2.9 percent base revenue growth (\$900.7 million) reflecting only the growth based on current law.** This 2.9 percent revenue growth rate does not include Gov. Wolf's proposed revenue modifications. These revenue modifications total \$892.6 million in 2015/16 and \$2.7 billion in 2016/17. See Page 30 for more information.

According to the administration, absent corrective action, **the 2016/17 budget will be out of balance by more than \$2 billion (structural deficit)** if the commonwealth merely budgets to meet legally required obligations and just maintains other programs at current spending levels. By comparison, the IFO estimates the structural deficit to be just under \$2 billion, growing to \$2.6 billion in the following years. Under either scenario, the problem is significant and demands a fix. Normal expenditure growth continues to outpace growth in revenues. **Considering the state's financial situation, Gov. Wolf outlines a revenue package that garnered significant bipartisan support in the December budget agreement that fixes the deficit and provides for restoration of the severe cuts made by the prior administration.**

**Rainy Day Fund** transfers have been suspended since 2008; however, to date no legislation has been enacted to suspend the transfer for 2014/15. Under current law, the 25 percent transfer for 2014/15 will be made by March 31, 2016. Therefore, the governor's proposed budget assumes a transfer of \$68.6 million to the Rainy Day Fund from balances available at the close of 2014/15, which in turn reduces the balances carried forward to the current and budget years. Generally, public policy experts recommend that states put five to 15 percent of their General Fund spending into some type of savings account. For Pennsylvania, this would mean a Rainy Day fund balance of between \$1.7 billion and \$5 billion, assuming the current budget proposal. The balance is currently negligible. The governor's 2016/17 budget proposes to suspend the transfer for 2015/16 and reinstate it for 2016/17.

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## Education

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Gov. Wolf proposes to **reverse the cuts to school districts** as largely envisioned in the late December bipartisan budget agreement for 2015/16, with an additional commitment to further restorations in 2016/17. He also asks the General Assembly to increase funding for public institutions of higher education in the 2016/17 budget, with a goal of completely restoring the 2011/12 budget cuts over four years. He continues to base his budget on the philosophy that education and economic prosperity are inextricably linked.

### PreK-12

The governor's executive budget requests \$10.1 billion in state General Funds for PreK-12 education funding (excluding pensions). **This represents an increase of \$485.2 million, or 5.1 percent, over 2015/16, which includes a \$3.7 billion proposed supplemental increase.**

### Basic Education Funding

The proposed 2016/17 budget combines the Ready to Learn Block Grant with the Basic Education Funding (BEF) subsidy to bring the total BEF subsidy appropriation to \$6.3 billion, which is an increase of **\$200 million, or 3.3 percent** over the comparable 2015/16 supplemental appropriation level. This \$200 million increase will be distributed to school districts using the bipartisan formula recommended by the Basic Education Funding Commission (BEFC).

As a reminder, Act 10A (House Bill 1460 as line-item vetoed by the governor) appropriated \$2.5 billion for the BEF subsidy, which represents only the first six months of funding for school districts. The governor's proposed budget calls for a **2015/16 supplemental BEF appropriation of \$3.3 billion in order to bring the total 2015/16 BEF subsidy appropriation (including the Ready to Learn Block Grant) to \$6.1 billion, an increase of \$376.9 million over 2014/15.** The final distribution formula for the 2015/16 BEF subsidy assumes the December bipartisan budget agreement by beginning to implement the BEFC recommended formula, while also providing targeted restorations of the previous funding cuts.

### Special Education

The governor proposes to **increase special education funding (SEF) by \$50 million**, or 4.6 percent, compared to 2015/16, including supplemental appropriations, for a total of \$1.15 billion in 2016/17. The distribution formula continues the transition begun in 2014/15 of using the formula recommended by the Special Education Funding Commission to distribute the increases in special education funding.

### Early Childhood

The 2016/17 proposed budget **increases early childhood education by \$60 million**, or 30.5 percent, over 2015/16 including supplemental appropriations. This includes providing a:

- \$50 million, or 33.9 percent, increase for **Pre-K Counts** for total funding of \$197 million; and
- \$10 million, or 20.3 percent, increase for **Head Start Supplemental Assistance** for total funding of \$59 million.

### PlanCon (Authority Rentals and Sinking Fund Requirements)

The proposed 2016/17 budget includes \$306.2 million for the PlanCon program (school construction costs), which is the same amount as 2014/15. The 2015/16 General Appropriations bill sent to the governor in December (House Bill 1460, PN2626) did not appropriate any funds for the PlanCon program. Instead, the Republican budget plan assumed new bond revenue to offset the 2015/16 appropriation, but to date no authorizing legislation has been enacted. The administration determined it



would be fiscally irresponsible to go to market with a new bond issue before addressing the commonwealth's structural budget challenges; therefore, Gov. Wolf's proposal moves away from the bond approach, and instead calls for a \$281.9 million supplemental appropriation in 2015/16 to cover the PlanCon program obligations for the current fiscal year.

### Other Programs

The governor proposes other appropriation changes compared to 2015/16 with supplemental appropriations, including:

- A \$15 million, or 21.4 percent, increase for **Career and Technical Education** and a \$2 million, or 66.7 percent, increase for **Career and Technology Education Equipment Grants**.
- Eliminating funding for **Mobile Science and Math Education Programs** (\$2.1 million) and **Job Training Programs** (\$10.5 million), which are typically legislative addbacks that the governor fully vetoed in Act 10A.
- A \$1.5 million, or 2.4 percent, total increase for the various **library appropriations**.
- A 6 percent increase for the **PA Charter Schools for the Deaf and Blind** and the **Approved Private Schools** appropriations.
- Meeting the full, 12-month obligation for **School Employee's Social Security**, which requires a \$99 million, or 22.7 percent, increase over 2015/16. The 2015/16 budget only covered 10 months of payments to school districts, shifting \$87 million into the 2016/17 budget year. This non-recurring, significant increase is to compensate for the one-time payment delay in 2015/16.
- A \$3 million, or 3.3 percent, increase for **Services to Nonpublic Schools**.

### Education Initiatives

#### Office of School Improvement

In an effort to increase accountability, Gov. Wolf's 2016/17 proposal calls on the PA Department of Education (PDE) to establish an **Office of School Improvement**, which he will charge with identifying and assisting persistently low-achieving schools.

Under this new office, turnaround specialists will be able to assist with diagnostic audits, revising school improvement plans, and providing training and technical assistance. PDE envisions a conglomerate of stakeholders, such as intermediate units (IUs), higher education institutions, and other educational partners, to work together with school leadership teams.

#### Charter School Reforms

The budget proposal also seeks to implement several important charter school reform measures to save school districts an estimated \$230 million annually by the third year, when the reforms are expected to be fully phased-in.

- The administration continues to support a **permanent end to the pension "double dip"** - the state's duplicative retirement contribution to charter and cyber-charter schools – saving the state an estimated \$75 million in 2016/17.
- Charter schools have accumulated large **unassigned fund balances**, and the administration is interested in preventing these balances from continuing to grow. Therefore, Gov. Wolf calls for charter schools to provide a pro-rata reimbursement to resident school districts if the charter school's audited expenditures are less than the tuition revenue paid by school districts.

- The administration also supports the Special Education Funding Commission’s recommendation that the **fair funding formula for driving special education funding** increases from the state to school districts also apply to the payments that school districts make to charter schools (both brick and mortar and cyber). Under the recommended formula, the additional funding for a special education student depends on the special education student’s level of need instead of simply an average cost.
  - **The administration proposes to phase-in this change over three years, and estimates school districts will save \$180 million per year once fully implemented in 2018/19.**
- Additionally, there is an added layer of **funding reform proposed for cyber charter schools**. Currently, home school districts pay tuition to charter schools based on a calculation. The non-special education student tuition amount is equal to the home school district’s total spending per student, less some deductions for costs that are not borne by cyber education providers such as transportation and adult education. Special education costs are deducted as well because school districts pay a separate add-on tuition amount to cyber charter schools for special education students.

The goal of the proposed funding reforms is to bring the tuition amounts that school districts pay to cyber charter schools more in line with the cyber charter’s actual costs to educate students. To achieve this, Gov. Wolf’s proposal allows additional deductions (e.g. a district’s library services and tax assessment and collection services) to be taken off of the total spending per student; thereby, reducing the non-special education student tuition amount school districts pay to cyber charter schools. Further, no school district will pay more than the 70<sup>th</sup> percentile of all districts’ non-special education tuition rate. The 70<sup>th</sup> percentile cap is also put in place for the special education add-on tuition rate. These tuition caps provide additional savings for the 150 school districts with the highest, most burdensome tuition rates.

- **The administration estimates these cyber funding reform measures will save school districts \$50 million annually beginning in 2016/17.**

## Higher Education

Gov. Wolf proposes to increase funding for public institutions of higher education in the 2016/17 budget, with a goal of completely restoring the 2011/12 budget cuts over four years, instead of two years as envisioned in last year’s proposal. In total, Gov. Wolf proposes an additional \$62.2 million for higher education, after adjusting for supplemental appropriations and assuming the passage of non-preferred appropriations for the state-related universities.

The General Assembly has not yet passed the 2015/16 non-preferred appropriations bills for the four state-related universities, and the governor line-item vetoed some higher education funding in Act 10A. The executive budget requests supplemental appropriations of \$36.2 million and passage of the non-preferred appropriations, worth \$548.6 million, to complete the 2015/16 budget.

For 2016/17, the executive budget proposes **5 percent increases for the public institutions of higher education**. The budget flat funds institutional assistance grants to private colleges and universities. The budget increases funding for institutions of higher education by \$61.1 million, after accounting for supplemental appropriations 2015/16 funding and enactment of funding for state-related universities.



<b>Funding for Institutions of Higher Education</b>					
<i>(\$ Amounts in Thousands)</i>					
<b>Institution</b>	<b>2015/16 (Act 10A)</b>	<b>2015/16 (with Proposed Supplementals)</b>	<b>Proposed 2016/17 Budget</b>	<b>\$ Change (from 2015/16 with Proposed Supplementals)</b>	<b>% Change</b>
Community Colleges	\$ 215,667	\$ 226,450	\$ 237,773	\$ 11,323	5.0%
Pennsylvania State System of Higher Education	\$ 412,751	\$ 433,389	\$ 455,058	\$ 21,669	5.0%
Penn State University (Including Penn College of Technology)		\$ 244,400	\$ 256,620	\$ 12,220	5.0%
University of Pittsburgh		\$ 143,193	\$ 150,353	\$ 7,160	5.0%
Temple University		\$ 146,913	\$ 154,259	\$ 7,346	5.0%
Lincoln University		\$ 14,084	\$ 14,788	\$ 704	5.0%
Thaddeus Stevens College of Technology	\$ 12,332	\$ 12,949	\$ 13,596	\$ 647	5.0%
Institutional Assistance Grants (Under PHEAA)	\$ 24,389	\$ 24,389	\$ 24,389	\$ -	0.0%
<b>TOTAL</b>	<b>\$ 665,139</b>	<b>\$ 1,245,767</b>	<b>\$ 1,306,836</b>	<b>\$ 61,069</b>	

The governor's proposal provides level funding for most programs administered by the Pennsylvania Higher Education Assistance Agency (PHEAA), including the state grant program, the Ready to Succeed Scholarships, institutional assistance grants and Act 101/higher education for the disadvantaged. The governor requests \$1.7 million in supplemental appropriations for Bond-Hill Scholarships and the Cheyney Keystone Academy, and would fund those appropriations at the same amount in 2016/17.

<b>Appropriated PHEAA Programs</b>					
<i>(\$ Amounts in Thousands)</i>					
<b>Program</b>	<b>2015/16 (Act 10A)</b>	<b>2015/16 (with Proposed Supplementals)</b>	<b>Proposed 2016/17 Budget</b>	<b>\$ Change (from 2015/16 with Proposed Supplementals)</b>	<b>% Change</b>
PHEAA Grants to Students	\$ 305,235	\$ 305,235	\$ 305,235	\$ -	0.0%
Pennsylvania Internship Program Grants	\$ 350	\$ 350	\$ 450	\$ 100	28.6%
Ready to Succeed Scholarships	\$ 5,000	\$ 5,000	\$ 5,000	\$ -	0.0%
Matching Payments for Student Aid	\$ 12,496	\$ 12,496	\$ 12,496	\$ -	0.0%
Institutional Assistance Grants	\$ 24,389	\$ 24,389	\$ 24,389	\$ -	0.0%
Higher Education for the Disadvantaged - Act 101	\$ 2,246	\$ 2,246	\$ 2,246	\$ -	0.0%
Higher Education of Blind or Deaf Students	\$ 47	\$ 47	\$ 47	\$ -	0.0%
Bond - Hill Scholarships	\$ 534	\$ 1,250	\$ 1,250	\$ -	0.0%
Cheyney Keystone Academy	\$ 1,525	\$ 2,250	\$ 2,250	\$ -	0.0%
<b>TOTAL</b>	<b>\$ 351,822</b>	<b>\$ 353,263</b>	<b>\$ 353,363</b>	<b>\$ 100</b>	

## Pensions

Similar to last year's budget proposal, Gov. Wolf's 2016/17 budget proposal includes a multi-faceted strategy to manage the commonwealth's pension funding challenge. Among other changes, the governor proposes to fully pay the state's required annual employer contribution to both state pension systems, as well as create a special restricted revenue account to ensure annual employer payments in the future.

To summarize, the governor's proposal:

- Fully pays the state's required annual contribution to both state pension systems - the State Employees Retirement System (SERS) and the Public School Employees' Retirement System (PSERS).
- Creates a special restricted revenue account for the commonwealth's annual employer payment to PSERS to help ensure the payment is not compromised in the future.

- Seeks to reduce fees for investment management services.
- Permanently eliminates the charter and cyber charter school pension “double dip”.
- Eliminates funding for the Public Employee Retirement Commission (PERC).

### Annual Required Employer Contribution

For the annually required employer contribution made to the **Public School Employees’ Retirement System (PSERS) Fund**, the governor’s 2016/17 budget proposal requests \$2.06 billion in state General Funds, which represents an increase of \$345 million, or 20.1 percent, from 2015/16. The expected increase reflects the multi-year and predictable adjustments in employer funding to pay down the state’s unfunded pension liability pursuant to the funding schedule provided for by Act 120 of 2010. Please note while the contribution amount increased, the magnitude of the increase is beginning to rapidly diminish as more of the contribution goes directly to paying down the debt. **For the first time in 15 years, the employer contribution rate provides 100 percent of the actuarially required rate.**

The annually required employer contribution made to the **State Employees’ Retirement System (SERS) Fund** is not provided in a single appropriation, but rather it is allocated throughout every appropriation that includes personnel expenditures. Across the multitude of appropriations, it is assumed the governor’s 2016/17 budget proposal includes roughly \$590 million in state General Funds for offices under the governor’s jurisdiction, which represents an estimated increase of \$105 million, or 22 percent, from 2015/16, which includes a \$6 million supplemental appropriation decrease.

### Restricted Revenue Account (New)

The governor’s proposal creates a special restricted revenue account, composed of monies received from the General Fund, to ensure the state makes its annually required employer contribution payment to the Public School Employees’ Retirement System (PSERS) Fund and does not shirk its responsibility in the future, as has been done in the past. The governor’s budget proposal will continue to make the statutory annual required employer contribution, pursuant to Act 120 of 2010. The transfer to the restricted revenue account would begin in 2015/16 and for each year thereafter. This recommendation requires separate enabling legislation.

PA School Employees Retirement (PSERS) Appropriation						
<i>(\$ Amounts in Millions)</i>						
	2015/16			2016/17		
	Act 10A	Proposed Supplemental	\$ Change (from Act 10A)	Proposed Budget	\$ Change (from 2015/16 with Proposed Supplemental)	% Change
<b>School Employees Retirement Approp</b>						
Department of Education	\$1,725	\$1,439		\$1,503		
Restricted Revenue Account (New)	\$0	\$280		\$561		
<b>TOTAL Executive Budget Estimate</b>	<b>\$1,725</b>	<b>\$1,719</b>	<b>-\$6</b>	<b>\$2,064</b>	<b>\$345</b>	<b>20.1%</b>

### Investment Management Savings

The governor recommends consolidating investment management operations to reduce costs associated with redundant personnel, duplicative contracts with private investment managers, and leverage strategic competitive advantages within the existing administrative systems.

### **Eliminate the Pension “Double Dip”**

The governor’s budget proposal seeks to permanently eliminate the state’s duplicative retirement contribution to charter and cyber-charter schools. It is estimated this change will save the state roughly \$75 million in 2016/17.

### **Public Employees Retirement Commission (PERC)**

The governor’s budget proposal includes abolishing PERC to eliminate redundancy. PERC is charged with monitoring public retirement systems in the state to assure their actuarial viability through independent review of any proposed legislative changes to those plans so the General Assembly can make informed decisions.

PERC was created to be an independent commission charged with drafting actuarial notes for pension legislation in addition to calculating and distributing subsidies to the Municipal Pension Aid fund for fire fighters, police and other municipal employees.

In addition, the commission monitors and enforces compliance, and certifies municipal pension cost data annually to approve the release of over \$250 million of state aid to municipalities.

## **Health & Human Services**

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### **Human Services**

The Executive Budget requests \$12.7 billion in state General Funds for the Department of Human Services (DHS). This represents an increase of \$990 million, or 8.5 percent, compared to 2015/16, which includes a proposed supplemental appropriation increase of \$2.04 billion.

#### **2015/16 Supplemental Request Highlights**

The vast majority of the requested state supplemental appropriation increase reflects the fact that Act 10A signed by the governor is an incomplete budget.

The largest component of the 2015/16 supplemental appropriation increase (\$1.95 billion) is for Medical Assistance Capitation, the appropriation that funds the commonwealth’s Medicaid managed care program. The governor’s December line-veto eliminated one-half of the state appropriation, or roughly six months of payments to the managed care organizations. The requested supplemental appropriation fully covers the managed care payments that DHS anticipates making this fiscal year.

Gov. Wolf is requesting nearly \$32 million for his initiatives that were included in the bipartisan agreement for 2015/16, but were omitted from the budget bill (House Bill 1460) the General Assembly sent to his desk. This includes:

- \$27.9 million to restore one-third of the Corbett Administration cuts to county human services programs (mental health, intellectual disabilities, drug and alcohol treatment, homeless assistance and county child welfare special grants);
- \$2.5 million for counties to combat heroin and opioid addiction;
- \$1 million to address homelessness among veterans;
- \$500,000 to promote employment opportunities for individuals with intellectual disabilities.

## 2016/17 Budget Request Highlights

Four factors account for \$507 million (or 51 percent) of the governor's proposed \$990 million increase for DHS: the change implemented in 2015/16 for appropriating funds for county child welfare; federally mandated increases in Medicare costs paid by the states; the need to replace non-recurring funds; and the scheduled reduction in the federal matching rate for Medicaid expansion.

- The 2015/16 county child welfare appropriation includes one-time savings of **\$171 million** that must be paid in 2016/17. This is because the 2015/16 budget switched from funding county child welfare on an accrual basis to a cash basis. As a result, the appropriation does not fund services for which reimbursements are made after June 30. Instead, payment for those services is now funded in 2016/17, the year in which DHS provides the reimbursement.
- Increases in federally-mandated Medicare payments account for **\$77 million** of the proposed state increase. The federal government requires state Medicaid programs to pay Medicare Part A and Part B for dual eligibles – these are low-income seniors and disabled individuals who qualify for both Medicare and Medicaid – and it also requires states to make monthly payments to the Medicare Part D drug program in accordance with a statutory formula in federal law. The proposed 2016/17 budget includes \$25.8 million to account for increases in Part A and Part B costs (funded through the Medical Assistance Fee-For-Service appropriation) and \$51.3 million to fund the projected increase in Part D payments.
- The need to replace revenue that was used in 2015/16 to pay for Medicaid expenditures, but no longer available in 2016/17, totals **\$199 million**. The following appropriations increase \$168 million to replace non-recurring prior year funds used in 2015/16: Fee-For-Service (\$36 million); Capitation (\$66.8 million) and Long Term Care (\$65.2 million). The seven appropriations, which fund the various home and community-based waiver programs, increase \$31 million to replace enhanced federal matching funds the commonwealth received during the first quarter of 2015/16 under the federal Balancing Incentive Payments program.
- Beginning January 2017, states must pay a share of Medicaid expansion costs. The federal government pays 100 percent of Medicaid Expansion costs through 2016; for calendar year 2017, the federal share decreases to 95 percent and states must pay 5 percent. (Note: The federal share will continue to decrease each calendar year until it reaches 90 percent in 2020 and each year thereafter.) The proposed 2016/17 budget assumes **642,000 adults will be covered under Medicaid Expansion** and includes **\$60 million** to fund the state's 5 percent share that takes effect January 1. These costs are included in the state appropriations for Medical Assistance Capitation (\$55 million) and Medical Assistance Fee-For-Service (\$5 million).

Gov. Wolf is requesting more than **\$218 million for a wide array of new initiatives** briefly described below. These initiatives represent 22 percent of the requested increase for DHS.

- Gov. Wolf's proposed budget assumes phase two of his proposed three-year restoration of the \$84 million cut imposed by Gov. Corbett on county human services programs in 2012/13. As highlighted earlier, the governor's 2015/16 supplemental appropriation request calls for restoring the first third of the cut, worth \$27.9 million. The governor proposes to restore the second third in 2016/17, providing another \$27.9 million to the counties and thereby restoring \$55.8 million of Gov. Corbett's cuts. Funds are restored to the counties via increases to the seven state appropriations as detailed in the following table.

## County Human Services Programs

(\$ Amounts in Millions)

Appropriations Impacted by the Proposed Restoration of County Human Services Funds	2011/12 Corbett Cuts	2015/16 Wolf Proposed 1/3 Restoration	2016/17 Wolf Proposed 2/3 Restoration
Mental Health Services (community programs)	(\$54.977)	\$18.326	\$36.651
Intellectual Disabilities (ID) - Community Base Program	(\$14.497)	\$4.832	\$9.665
County Child Welfare (special grants)	(\$4.399)	\$1.466	\$2.932
Behavioral Health Services	(\$4.791)	\$1.597	\$3.194
Homeless Assistance	(\$2.055)	\$0.685	\$1.370
Human Services Development Fund	(\$1.496)	\$0.499	\$0.997
MA Fee for Service (Act 152 D&A Program)	(\$1.473)	\$0.491	\$0.982
<b>Total</b>	<b>(\$83.687)</b>	<b>\$27.896</b>	<b>\$55.792</b>

- The 2016/17 budget proposes an additional **\$34 million to combat the heroin and opioid epidemic** in Pennsylvania. With these funds, the department will provide 50 health homes to treat 11,250 individuals with substance use disorders, providing medication-assisted treatment and appropriate wrap-around services. Funding for this initiative is included in the Behavioral Health Services appropriation (\$17.5 million) and Medical Assistance Capitation appropriation (\$16.7 million).
- The governor proposes **\$10 million to provide evidence-based home visiting services** to more than 1,900 at-risk infants and toddlers and their families. Home visiting provides comprehensive support services including parenting support, healthy growth and child development, and the early identification of children with special needs or developmental delays. Funding for this initiative is under a new appropriation, Family Centers and Home Visiting, which also includes funding that currently supports community-based family centers.
- Gov. Wolf proposes a **\$12 million increase in the Child Care Assistance** appropriation to reduce the waiting list for low-income families. This initiative will allow an additional 2,300 children currently on the **Child Care Works waiting list** to receive subsidized care so that their parents can continue to work and support their families.
- The governor proposes to implement **Express Lane Eligibility** in order to facilitate health care coverage for uninsured children who may be eligible for CHIP or Medicaid. His 2016/17 budget proposal requests **\$22.6 million to support this initiative** as follows: \$21.2 million for Medical Assistance Capitation to cover those children determined eligible for Medicaid; \$841,000 for CHIP to cover children determined eligible for CHIP; and \$545,000 for Information Systems to support outreach and enrollment activities.
- The proposed 2016/17 budget includes a \$12.3 million increase to provide **home and community-based services to an additional 850 individuals with intellectual disabilities (ID) and autism**. This includes:
  - \$11.5 million to provide waiver services to an additional 250 individuals on the emergency waiting list and 500 students graduating from special education.
  - \$775,000 to expand waiver services to an additional 100 adults with autism.

- The governor’s proposal also provides **community placements for 165 current residents in the state mental health hospitals and the state ID centers**. A total increase of \$5.7 million is requested for the following appropriations:
  - \$4.725 million for Mental Health Services to provide home and community-based services for 90 individuals currently residing in state hospitals.
  - \$955,000 for Intellectual Disabilities – Community Waiver Program to provide home and community-based services for 75 individuals with intellectual disabilities currently residing in state ID centers.
- Gov. Wolf also proposes nearly \$50 million for the following appropriations to expand community services for older adults and adults with physical disabilities:
  - \$17.9 million for Home and Community-Based Services to serve an additional 2,304 older adults;
  - \$8.9 million for Long Term Care Managed Care, including \$7.4 million to serve an additional 600 older adults and \$1.5 million to expand services in five counties;
  - \$18.4 million for Services to Persons with Disabilities to serve an additional 1,440 adults with severe physical disabilities; and
  - \$4.7 million for Attendant Care to serve an additional 600 adults with disabilities.
- The proposed 2016/17 budget includes \$43 million (across six appropriations) to implement the **first phase of a new managed long-term care program**, called Community Health Choices (CHC). Gov. Wolf announced this initiative last February as a way to improve home and community based care services for seniors and adults with disabilities. CHC program goals include enhancing community options, improving care coordination and health outcomes, and increasing efficiencies. The department will contract with managed care organizations which will be paid a capitated rate to provide coordinated coverage of physical health and long-term care services. Participants in the program will have a choice between two to five CHC managed care organizations in each of five geographic zones – the CHC zones coincide with the existing physical health HealthChoices zones. Implementation of phase one is anticipated to begin January 2017 and will encompass the 10-county Southwest zone. Implementation of phase two in the 5-county Southeast zone is slated for January 2018, with implementation of phase three anticipated in January 2019 for the remaining 3 zones, which cover 57 counties.

The 2016/17 proposed budget includes **\$17.8 million for a 1 percent rate increase to nursing facilities**. Rate increases for other providers are not apparent at this time.

The governor proposes to move the eHealth Partnership Authority to DHS. The authority was established in 2012 to implement a health information exchange. The proposed relocation is expected to result in administrative savings and allow DHS to maximize federal dollars. According to the Wolf Administration, moving current personnel to DHS would save approximately \$1 million annually.

## Health

The governor’s executive budget requests \$209.2 million in state General Funds for the Department of Health. This represents an increase of \$6.96 million from 2015/16, or 3.4 percent, which includes a \$3.1 million proposed supplemental appropriation increase. The 2016/17 proposed budget eliminates funding for a variety of appropriations for specific conditions and programs that the legislature traditionally adds back.



The 2016/17 budget proposal includes increases in a variety of the department's core programs including: **Quality Assurance** (\$977 million or 4.8 percent), **Vital Statistics** (\$1.13 million or 18 percent), and **State Laboratory** (\$500,000 or 15.3 percent). Collectively, these programs help to maintain quality and accountability in the state's health care system to ensure that it is equipped to address ever-changing public health challenges.

Comparable to 2015/16, Gov. Wolf's 2016/17 budget proposal includes an additional \$2.82 million, or 12 percent, to **State Health Care Centers**. This follows a Pennsylvania Supreme Court ruling in 2014 against then-Gov. Corbett's closure of 24 State Health Care Centers. The department has been working to reopen closed facilities, address staffing needs and restore operations. The centers provide a wide array of public health services, which are particularly critical for medically underserved and rural communities across the commonwealth.

The governor's budget proposes an additional \$1.01 million, or 46.9 percent, to annualize funding for the **Achieving Better Care by Monitoring All Prescriptions (ABC-MAP)** program. This prescription drug monitoring system, established in Act 191 of 2014, aims to ensure parity between dispensers and prescribers to combat abuse and diversion of controlled substances in Pennsylvania.

## Insurance

The general government operations of the Pennsylvania Insurance Department are funded directly by the Insurance Regulation and Oversight Fund, established by Act 46 of 2013.

Act 84 of 2015 transferred the program and administrative components of the **Children's Health Insurance Program (CHIP)** to the Department of Human Services. This move will increase continuity of care by ensuring that eligible children are receiving proper coverage under either CHIP or Medicaid. Rehousing the administration of CHIP will also better align state resources and expertise, which will increase efficiency and reduce costs.

Gov. Wolf's proposed budget includes \$7 million for repayment of a \$100 million loan made to the General Fund from the **Underground Storage Tank Indemnification Fund (USTIF)** in 2003/04. The same repayment amount was included in the governor's proposal last year, but was not included in the 2015/16 enacted budget (Act 10A). The repayment plan calls for annual payments of no less than \$7 million through 2029.

## Drug & Alcohol Programs

In an ongoing effort to curtail heroin and opioid abuse throughout the commonwealth, the governor's budget proposal maintains in 2016/17 the \$5 million increase in funding for **Assistance to Drug and Alcohol Programs** enacted in the 2015/16 budget. The department distributes these funds to counties to provide community-based education, prevention and treatment services. Additionally, the administration continues to promote access to the life-saving rescue drug naloxone for individuals, families and first responders.

## Tobacco Settlement Fund

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The proposed 2016/17 budget spends \$330.2 million of Tobacco Settlement Fund revenue. This includes \$309.2 million of payments anticipated from tobacco manufacturers in April 2017 and nearly \$21 million from the strategic contribution payment.

For 2016/17, the governor once again proposes to change the statutory formula established in the Fiscal Code for allocating annual tobacco payments to programs. Just as he proposed in 2015/16, Gov. Wolf

recommends eliminating the 8 percent allocation for PACENET and increasing the funding allocation for health-related purposes from the 22.72 percent to 30.72 percent. This change would redirect a total \$24.7 million to Long-Term Care in the Department of Human Services (this appropriation funds nursing home care for Medical Assistance recipients).

In addition to the redirected funds, the governor recommends the strategic contribution payment continue to be appropriated for health-related purposes. This is consistent with how the strategic contribution payment has been spent in all previous budgets.

The following table shows the proposed distribution of Tobacco Settlement Fund revenues to specific programs for 2016/17 compared to 2015/16. Because legislation amending the Tobacco Settlement Fund provisions in the Fiscal Code has not yet been enacted, the 2015/16 distribution is labeled as “pending”. In addition, the 2015/16 distribution includes prior year allocations released for Tobacco Use Prevention and Cessation, Health Research, and Hospital Uncompensated Care.

<b>Tobacco Settlement Fund</b> <i>(\$ Amounts in Millions)</i>		
<b>Expenditures for Health-Related Programs</b>	<b>2015/16 Pending</b>	<b>2016/17 Proposed</b>
Home and Community-Based Services	\$39.6	\$40.2
Tobacco Use Prevention and Cessation	\$19.0	\$13.9
Health Research - Health Priorities	\$52.6	\$39.0
Health Research - National Cancer Institute	\$3.0	\$3.1
Hospital Uncompensated Care	\$62.6	\$25.3
Medical Assistance for Workers with Disabilities	\$87.1	\$92.8
PACenet Transfer	\$0.0	\$0.0
Health-Related Purposes:		
Medical Assistance - Long-Term Care	\$111.4	\$112.9
Life Sciences Greenhouses	\$3.0	\$3.0
<b>TOTAL</b>	<b>\$378.4</b>	<b>\$330.2</b>

## Lottery Fund

The governor proposes total Lottery Fund spending of \$1.82 billion in 2016/17, which is \$3.6 million less than the current year. This includes the projected payout for lottery prizes, costs to operate the lottery, commissions to retailers and vendors, and proposed funding for programs benefitting seniors.

For 2016/17, Gov. Wolf proposes to spend \$1.33 billion for senior programs. This represents a net increase of \$37.5 million compared to 2015/16. The following table shows the proposed 2016/17 Lottery Fund expenditures for senior programs by agency and by appropriation.

- Most of the additional funds requested for PENNCARE support the attendant care program, which is projected to serve an additional 312 elderly Pennsylvanians in 2016/17. A small portion of the increase, \$1.3 million, is requested to upgrade the financial reporting system to better manage allocation of funds to the local Area Agencies on Aging.
- A significant increase is requested for the Pharmaceutical Assistance Fund to support prescription drug assistance provided to more than 250,000 seniors in the PACE program.

- The governor proposes to use \$293 million of Lottery Fund revenue to help pay for Medicaid expenditures in the Department of Human Services. This is \$1.6 million less than 2015/16, reflecting the proposed reduction in funding for the Medical Assistance Transportation Program (MATP), and is \$208.5 million less than the record level spending by the Corbett Administration in 2014/15.
- The increase for the Property Tax and Rent Rebate will provide relief to an estimated 573,000 households.

<b>Lottery Fund Expenditures for Senior Programs</b>			
<i>(\$ Amounts in Millions)</i>			
<b>Agency/Appropriations</b>	<b>Executive Budget</b>		<b>Change from 2015/16</b>
	<b>2015/16 *</b>	<b>2016/17</b>	
<b>Department of Aging:</b>			
PennCARE	\$309.9	\$317.3	\$7.4
Pre-Admission Assessment	\$16.1	\$16.1	\$0.0
Caregiver Support	\$12.1	\$12.1	\$0.0
Pharmaceutical Assistance Fund	\$190.0	\$220.0	\$30.0
Grants to Senior Centers	\$2.0	\$2.0	\$0.0
Alzheimer's Outreach	\$0.3	\$0.3	\$0.0
<b>Department of Human Services:</b>			
Medical Assistance Long-Term Care	\$184.1	\$184.1	\$0.0
Home and Community Based Services	\$105.7	\$105.7	\$0.0
Medical Assistance Transportation	\$4.9	\$3.3	-\$1.6
<b>Department of Revenue:</b>			
Property Tax and Rent Rebate	\$285.2	\$289.9	\$4.7
<b>Department of Transportation:</b>			
Free Transit	\$95.9	\$95.9	\$0.0
Shared Ride	\$86.0	\$83.0	-\$3.0
<b>TOTAL</b>	<b>\$1,292.1</b>	<b>\$1,329.6</b>	<b>\$37.5</b>
* Includes a recommended \$15 million supplemental appropriation increase for the Pharmaceutical Assistance Fund and a recommended \$15 million supplemental appropriation decrease for Home and Community-Based Services.			

The governor's 2016/17 budget request assumes lottery ticket sales grow 0.7 percent to \$4.12 billion and net collections (after paying commissions and field prizes) decrease by 1.2 percent to \$1.58 billion, as compared to the prior year.

The proposed budget would leave the Lottery Fund with an ending balance of \$23.7 million at the close of 2016/17, with no funds held in reserve.

## Transportation

The 2016/17 budget proposal includes \$6 billion in state funding for the Department of Transportation, a decrease of \$206 million, or 3.3 percent, over 2015/16, which includes a \$4.6 million supplemental appropriation increase.

The decrease is largely driven by a net reduction of \$181 million in spending 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.

The governor's 2016/17 budget proposal reflects a \$227 million decrease in public transportation funding for asset improvements relative to 2015/16. Please note that in 2015/16 an accumulated fund balance in the Public Transportation Trust Fund was distributed, thus a larger than usual allocation was made in the current year; however, normal spending levels from the fund will resume again in 2016/17.

The budget proposal does not reflect any net changes to federal grant awards, which is atypical given the declining solvency of the federal Highway Trust Fund and the elimination of limited duration funds made available from the American Recovery and Reinvestment Act (ARRA) of 2009.

The governor's budget proposal includes undoing a one-time \$6.2 million supplemental appropriation for 2015/16 to fund the PennPORTS debt service from the Multimodal Fund and resumes paying for the debt service from state General Funds.

## Law Enforcement, Public Safety & Justice

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### State Police

Gov. Wolf proposes to increase the State Police general government operations (GGO) appropriation for 2016/17 by \$65.8 million, or 7.2 percent, for a total of \$982.6 million. About 25 percent of the State Police's total GGO funding (\$245.6 million) comes from the General Fund, whereas 75 percent (\$736.9 million) comes from the Motor License Fund.

Historically, the State Police have been funded primarily from the Motor License Fund. Over the past 15 years, funding for the State Police from the Motor License Fund has grown from about 67 percent in 2000/01 to 75 percent today.

The governor's budget proposal provides for three additional cadet classes beginning in 2016/17.

The governor also proposes to increase the State Police's appropriation for gun checks by \$3.2 million, for total funding of \$4.9 million in 2016/17.

All appropriations for the State Police total just over \$1 billion.

### Corrections and Rehabilitation (New)

Gov. Wolf again proposes to consolidate the **Department of Corrections (DOC) and the Board of Probation and Parole** to achieve efficiencies, cost savings and reduce recidivism. This consolidation will have no effect on the independent parole authority of the Board of Probation and Parole. The merger will generate immediate savings of \$10 million from combining budgets and operations, according to the administration. Senate Bill 859 passed the Senate in November 2015, and awaits further consideration in the House and negotiation among all parties.

The governor's budget requests a total of \$2.61 billion for the Department of Corrections and Rehabilitation in 2016/17. This represents an increase of \$192.3 million, or 8 percent, from 2015/16, which includes a \$957.5 million supplemental appropriation. About \$956 million of the supplemental appropriation increase is for the State Correctional Institutions (SCIs) because the governor line-item vetoed about half of the funding for the SCIs in Act 10A.

The following chart shows in more detail how the governor proposes to merge the Corrections general government operations (GGO) with a portion of the Board of Probation and Parole (BPP) GGO, creating

a new Corrections and Rehabilitation GGO. Select functions currently funded from the GGO appropriation for Probation and Parole will be broken out and placed in the following new appropriations: State Field Supervision, the Board itself and the Office of Victim Advocate.

Proposed Department of Corrections and Rehabilitation							
Merger of Department of Corrections (DOC) and Board of Probation and Parole (BPP)							
General Government Operations							
(\$ Amounts in Millions)							
	2014/15	2015/16	2015/16	2015/16	2016/17	\$	%
	Actual	(Act 10A)	(Proposed Supp.)	Total	Budget	Change	Change
<b>General Government Operations (GGO):</b>							
State Field Supervision (New Approp)	NA	NA	NA	NA	\$ 129.1		
BPP - Board Only (New Approp)	NA	NA	NA	NA	\$ 12.7		
BPP - Other (to be merged)	\$ 134.3	\$ 145.2	\$ -	\$ 145.2	NA		
Office of Victim Advocate (New Approp)	NA	NA	NA	NA	\$ 2.2		
<b>Probation and Parole GGO Subtotal</b>	<b>\$ 134.3</b>	<b>\$ 145.2</b>	<b>\$ -</b>	<b>\$ 145.2</b>	<b>\$ 143.9</b>	<b>\$(1.25)</b>	<b>-0.9%</b>
Corrections GGO (to be merged)	\$ 33.3	\$ 33.7	\$ 1.5	\$ 35.2	NA		
Corrections & Rehabilitation GGO (New)	NA	NA	NA	NA	\$ 47.9		
<b>GGO- Subtotal (for historical comparison)</b>	<b>\$ 167.6</b>	<b>\$ 178.9</b>	<b>\$ 1.5</b>	<b>\$ 180.4</b>	<b>\$ 191.8</b>	<b>\$11.44</b>	<b>6.3%</b>

The remaining appropriations currently housed under DOC and BPP would be placed under the new agency. The following chart shows spending under the Department of Corrections and Rehabilitation.

Proposed Department of Corrections and Rehabilitation							
Merger of Department of Corrections (DOC) and Board of Probation and Parole (BPP)							
All Appropriations Combined Under One Department							
(\$ Amounts in Millions)							
	2014/15	2015/16	2015/16	2015/16	2016/17	\$	%
	Actual	(Act 10A)	(Proposed Supp.)	Total	Budget	Change	Change
<b>GGO -- Subtotal</b>	<b>\$ 167.6</b>	<b>\$ 178.9</b>	<b>\$ 1.5</b>	<b>\$ 180.4</b>	<b>\$ 191.8</b>	<b>\$ 11.4</b>	<b>6.3%</b>
Medical Care (DOC)	\$ 229.2	\$ 258.5	\$ -	\$ 258.5	\$ 272.6	\$ 14.1	5.4%
Inmate Education and Training (DOC)	\$ 40.0	\$ 42.5	\$ -	\$ 42.5	\$ 45.4	\$ 2.9	6.8%
State Correctional Institutions (DOC)	\$ 1,830.2	\$ 956.0	\$ 956.0	\$ 1,912.1	\$ 2,065.9	\$ 153.9	8.0%
Transfer to Justice Reinvestment Fund (DOC)	\$ 1.0	\$ 3.0	\$ -	\$ 3.0	\$ 9.2	\$ 6.2	210.8%
Sexual Offenders Assessment Board (BPP)	\$ 5.5	\$ 5.8	\$ -	\$ 5.8	\$ 6.3	\$ 0.5	8.6%
Improvement of Adult Probation Services (BPP)	\$ 16.2	\$ 16.2	\$ -	\$ 16.2	\$ 19.5	\$ 3.3	20.3%
<b>TOTAL ALL APPROPRIATIONS</b>	<b>\$ 2,289.6</b>	<b>\$ 1,460.9</b>	<b>\$ 957.5</b>	<b>\$ 2,418.4</b>	<b>\$ 2,610.8</b>	<b>\$ 192.3</b>	<b>8.0%</b>

According to the governor's budget, the cost of operating SCIs has increased from nearly \$1.9 billion in 2012/13 to \$2.4 billion in 2016/17. Meanwhile, during this timeframe, the inmate population has declined from 51,184 inmates to 49,587 due to recent legislative changes and recidivism reduction initiatives. According to the administration, the commonwealth's inmate population declined by 850 inmates in 2015 – the greatest one-year decline over the last 40 years.

While this may seem counter intuitive, costs per inmate increase yearly due to increased health care costs, an aging inmate population, increased costs in food and clothing, among other necessities involved with incarcerating offenders. A recent arbitration decision related to correctional officers' salaries and benefits costs is also driving the increases. Also, as a result of the governor's proposed merger of DOC and BPP, there will be a transfer of 1,330 employees from BPP to DOC. Finally, 114 new employees will be added to the newly proposed Department of Corrections and Rehabilitation for a new mental health unit to be housed at SCI Waymart in Wayne County.

By merging departments and continuing to implement the Justice Reinvestment Act of 2012, the goal is to continue to realize fewer inmates within our correction system, reduce recidivism and save money. While savings continue to grow, funds are being used to invest in best practices proven to prevent crime and promote public safety.

### **Military and Veterans Affairs**

Gov. Wolf proposes to increase funding for Military and Veterans Affairs in 2016/17 by \$482,000, or 12.6 percent, for a total of \$148.7 million. He proposes to increase the appropriations for Veterans Homes and the Transfer to Educational Assistance Program Fund, which will benefit Pennsylvania's veterans.

In the governor's budget proposal, he eliminates funding for Civil Air Patrol. The legislature typically adds back this appropriation.

### **Attorney General**

The governor proposes to increase funding for the Office of Attorney General in 2016/17 by nearly \$1 million, or one percent, for total funding of \$96.7 million. To assist in dealing with problems related to heroin use, sex trafficking, child sexual abuse and crime fighting, the governor proposes to slightly increase most appropriations within the Office of Attorney General.

### **Judiciary**

Gov. Wolf proposes to increase funding for the Judiciary by \$22.2 million, or 6.8 percent, for a total of \$364.6 million.

This proposed increase is similar to the increase the Judiciary received in 2015/16, which was the first significant increase in funding in many years. Counties will also benefit from increased reimbursements.

### **Commission on Crime and Delinquency**

The governor proposes to provide \$300,000 to the Pennsylvania Commission on Crime and Delinquency (PCCD) to award grants to counties to establish problem-solving courts.

## **Environment**

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### **Environmental Protection**

The governor's budget provides \$153.7 million in state General Fund support for the Department of Environmental Protection (DEP). This represents a \$7.2 million, or 5 percent, increase over 2015/16, which includes a proposed \$3.8 million supplemental appropriation increase.

Gov. Wolf proposes increases in DEP's largest appropriations for 2016/17:

- \$1.56 million, or 5 percent, increase for **Environmental Program Management** over 2015/16, which includes a \$1.2 million supplemental appropriation increase; and a
- \$2.88 million, or 3 percent, increase for **Environmental Protection Operations** over 2015/16, which includes a \$2.1 million supplemental appropriation increase.

After factoring in a \$316,000 supplemental appropriation increase for 2015/16, the budget proposal provides level funding for the **Delaware River Basin Commission**. The Commission adopts programs to help protect the Delaware and Schuylkill rivers, which provide all of Philadelphia's water supply.



## Conservation and Natural Resources

Gov. Wolf's 2016/17 state General Fund budget proposes \$121.2 million for the Department of Conservation and Natural Resources (DCNR). This represents a \$61.3 million, or 102 percent, increase over 2015/16. This increase is attributed to a shift in the primary funding source for DCNR from the Oil and Gas Lease Fund to the General Fund. Across all state and federal funds, the budget proposes \$356 million in total spending, a 7.4 percent increase.

In recent years the Oil and Gas Lease Fund (OGLF) has largely provided for the primary appropriations within DCNR (General Government Operations, State Parks Operations, and State Forests Operations). However, in light of dismal revenue projections and significant transfers straining the OGLF, beginning in 2015/16, Gov. Wolf sought to transition critical funding for DCNR away from the OGLF and back to the state General Fund.

Gov. Wolf's 2016/17 budget proposal funds the three major DCNR appropriations as follows: \$19.5 million for General Government Operations, \$62.4 million for **State Parks Operations** and \$36.1 million for **State Forests Operations**. Under this budget proposal, these DCNR appropriations would be funded entirely by the General Fund, and would require no transfer from the OGLF.

The governor's budget proposal includes an increase in the tipping fees paid by landfill operators across the commonwealth. In 2016/17, it is estimated that the tipping fee increase proposal would bring in \$35 million, which would support the Oil and Gas Lease Fund.

This additional revenue for the OGLF will allow the transfers to the Marcellus Legacy Fund to resume as prescribed under Act 13, totaling \$50 million in 2016/17. This includes \$35 million for the **Environmental Stewardship Fund** and \$15 million for the **Hazardous Sites Cleanup Fund**. Funding for the Hazardous Sites Cleanup Fund is critical in 2016/17 because of the lost revenue from the expiring Capital Stock and Franchise Tax.

As part of the line-item veto, Gov. Wolf eliminated funding for the **Heritage and Other Parks** appropriation in 2015/16, which provides grants to communities to help plan, develop, manage and market natural, recreational and historical resources. The governor does not restore funding for this appropriation in 2016/17; however, the General Assembly typically adds back this appropriation.

Gov. Wolf's 2016/17 budget includes a \$2.5 million initiative to revive the **Pennsylvania Conservation Corps** within DCNR. This program, last active in 2011, trains youth and young adults in hands-on construction, as well as conservation and recreation-related work.

## PENNVEST

In his 2015/16 budget proposal, Gov. Wolf sought to leverage \$500 million through PENNVEST bonds to address deteriorating municipal water and sewer infrastructure. Last year, the administration released \$358.9 million toward that goal, including \$289.6 million to municipalities in the form of low-interest loans and \$69.3 million in the form of grants. Funding for these projects comes from a combination of state funds approved by voters, federal grants from the Environmental Protection Agency (EPA), and recycled loan payments from previous PENNVEST funding awards. Since its inception in 1988, PENNVEST has awarded \$7.7 billion in loans and grants, with the majority of funds going toward sewer loans (\$4.2 billion) and drinking water loans (\$2 billion). The 2016/17 budget maintains progress toward the governor's goal.

## Other Areas

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### Agriculture

The governor's budget proposal includes \$142.5 million in state General Fund support for the Department of Agriculture in 2016/17. This proposal represents a \$12 million, or 9 percent, increase from 2015/16, which includes a \$77.6 million proposed supplemental appropriation increase.

The governor's proposal eliminates several programs typically restored by the legislature. As part of the governor's line-item veto, the traditional legislative addbacks within the department were eliminated for 2015/16 as well, totaling \$3.9 million.

The governor's proposal provides an additional \$3.5 million for planning and response efforts to the **avian flu** in the 2016/17 budget. This is in addition to the \$3.5 million allocated last year to protect poultry farmers and consumers. The department would use these additional funds for laboratory supplies and equipment, and other technology investments critical to protecting the commonwealth.

Gov. Wolf is proposing \$20.4 million for the **State Food Purchase Program**, which helps support food banks in every county across the commonwealth. This is a \$2 million, or 11 percent, increase in funding over 2015/16.

The governor's budget proposal provides \$50.98 million for the **Agricultural College Land Scrip Fund**, which supports the **agricultural operations at Penn State University**. Gov. Wolf eliminated this appropriation in his line-item veto. When adjusting for the proposed 2015/16 supplemental appropriation increase of \$48.5 million, the 2016/17 funding level of \$50.98 million represents a \$2.4 million, or 5 percent, increase over 2015/16.

The 2016/17 budget allocates \$28 million to the **University of Pennsylvania for veterinary activities** and \$261,000 for the **University's Center for Infectious Disease**, which assumes no increase over 2015/16. The non-preferred legislation reflecting these appropriations for 2015/16 has not yet been enacted. The bipartisan budget agreement in December had initially assumed a 5 percent increase for 2015/16 compared with 2014/15.

The 2016/17 budget proposal level funds the **Animal Health and Diagnostic Commission** (\$5.35 million), **Pennsylvania Veterinary Lab** (\$5.3 million), and **payments to Pennsylvania fairs** (\$4 million), and maintains these appropriations in the Race Horse Development Fund (RHDF). These appropriations were eliminated from the 2015/16 state General Fund budget by Gov. Wolf's line-item veto and he proposes to restore them in the RHDF. The 2016/17 budget proposal would also maintain the transfer to the **state Farm Show** (\$5 million) from the RHDF, and increase the transfer to the **state Racing Fund** (\$11 million), from the RHDF.

The multi-party, race horse industry reforms, brokered last fall, were assumed in the bipartisan budget agreement in December. The agreement included maintaining these appropriations within the RHDF, not moving them to the state General Fund.

The 2016/17 budget proposal assumes the 2015/16 transfers from the RHDF as agreed to in December. This includes funding for the appropriations mentioned above, as well transfers for the state Farm Show (\$5 million) and for the State Racing Fund (\$6.1 million). These transfers are awaiting authorization through the pending Fiscal Code bill (House Bill 1327, PN 2711).

## Community & Economic Development

Gov. Wolf's 2016/17 budget proposal requests \$287.9 million in state General Funds for the Department of Community and Economic Development. This represents an increase of \$18.46 million, or 6.9 percent, from 2015/16, which includes a \$60.9 million proposed supplemental increase. This increase does not account for appropriations that are traditionally added back by the legislature.

The governor's proposed budget provides an additional \$11 million to **Pennsylvania First** – an increase of 32.4 percent. Consisting of three consolidated programs, this appropriation broadly aims to provide resources to leverage private capital investment to facilitate job creation and development. Additionally, these funds support workforce training opportunities including the Workforce and Economic Development Network of Pennsylvania (WEDnetPA) program.

The governor's budget proposes to increase funding for **Industrial Resource Centers (IRCs)** by \$1 million, or 8.3 percent. Gov. Wolf's proposal assumes shifting the IRCs out of the **Partnerships for Regional Economic Performance (PREP)** appropriation in 2015/16, and assumes an increase for the remaining three programs consolidated under that appropriation. As presently enacted under Act 10A, the IRCs remain consolidated within the PREP appropriation.

Gov. Wolf also proposes to reallocate \$125 million in existing **Commonwealth Financing Authority (CFA)** resources to recapitalize the **Business in Our Sites** program. This financing program supports growth and relocation of businesses in the commonwealth by leveraging private investment. Funds would be reallocated from existing sources as follows:

- \$50 million from the First Industries Fund;
- \$24.5 million from the High Performance Building Program; and
- \$50.5 million from Building PA.

Many of the department's appropriations experienced significant cuts under the previous administration, and the 2016/17 budget proposal retains several key funding restorations assumed in proposed supplemental appropriations for 2015/16. Most notably, the proposal provides \$15 million for **Keystone Communities** to continue local revitalization and community development opportunities – including the Main Street and Elm Street programs. Further, the governor's proposed budget allocates \$30 million to the **Infrastructure and Facilities Improvement Program**, which leverages the growth in future state tax revenue to offset large-scale infrastructure and industrial projects.

## Labor & Industry

For 2015/16, the General Assembly passed an additional \$5 million for the **Office of Vocational Rehabilitation (OVR)**. These funds enable the commonwealth to maximize federal matching funds and help more Pennsylvanians with disabilities find jobs and remain employed, with additional emphasis on helping high school students with disabilities transition from school to work. The executive budget builds on this investment by increasing OVR's appropriation by an additional \$2 million, for a total of \$47.5 million.

The governor also expands the **industry partnership program** in his budget proposal. The program enables collaboration between local workforce development organizations, employers and employees to address incumbent worker training needs in an industry. The budget includes \$11.6 million for industry partnerships, a \$5.8 million, or 4.4 percent, increase after a proposed \$4 million supplemental appropriation.

Finally, although not an appropriation, Gov. Wolf proposes to increase the minimum wage from \$7.25 to \$10.15 per hour and index it to inflation to maintain purchasing power in the future.

## Complement

This budget proposes to increase the total number of state employees by a net 251 full-time equivalent authorized positions in 2016/17 (from 80,042 to 80,293 positions); however, four agencies will need to cut positions.

Under the governor's proposal, the agencies receiving notable changes include:

- Department of Corrections – Total increase of 1,444 positions comprised of an increase of 1,330 positions transferred from the Board of Probation and Parole and 114 new positions for the dementia unit at SCI Waymart in Wayne County.
- Board of Probation and Parole – Reduction of 1,330 positions to be transferred to the Department of Corrections as part of the proposed merger.
- Department of Revenue – Increase of 44 positions for implementation of proposed tax changes.

## Efficiencies

The governor's budget proposal emphasizes the ongoing work of the Governor's Office of Transformation, Innovation, Management and Efficiency (GO-TIME). According to the administration, it is on track to achieve \$150 million in savings in 2015/16, including:

- \$100 million in projected savings by applying commercial best practices to state contracts and reintroducing reverse auctioning;
- \$27.5 million in savings, over two years, by outsourcing to a data center to meet digital capacity needs;
- \$1.7 million in annual savings through consolidation of outgoing mail services for state agencies; and
- \$1.5 million in savings by consolidating purchases at smaller facilities in the Department of Corrections;
- \$1.4 million in savings at PennDOT from reduced salt usage because of new plow tracking technology.

GO-TIME initiatives for 2016/17 include maximizing efficiency through process improvement programs, partnering with external entities to address challenges, and developing recognition programs to reward employee engagement in transformational activities.

## General Services

The Department of General Services (DGS) will receive \$119.7 million under the governor's 2016/17 budget proposal. This represents a decrease of \$6.5 million, or 5 percent, over 2015/16, which includes a \$1.1 million supplemental appropriation increase.

The governor's budget proposal assumes a \$10.6 million decrease for the General Government Operations (GGO) appropriation in 2016/17. The reduction stems from a comprehensive modernization effort within the public works bureaus. This plan will replace decades-old, paper-based procedures and systems with a new software platform according to the administration. The budget assumes the plan will save millions per year in personnel and operating costs in the state General Fund.

The budget proposal provides \$5 million for Capitol Fire Protection. While funding for these services had previously been split between DGS and the Center for Local Government Services in the Department of Community and Economic Development, the governor proposes consolidating the total funding for this program into the single appropriation housed in DGS.

## Tax & Revenue Changes

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**The administration estimates that without corrective action, the 2016/17 budget will be out of balance by more than \$2 billion (structural deficit).** That assumes the commonwealth merely budgets to meet legally required obligations and just maintains other programs at current spending levels.

Considering this, the governor's budget proposal largely avoids unsustainable sources of funds to balance the budget, and instead outlines a revenue package similar to the plan that garnered significant bipartisan support in the December budget negotiations.

The governor proposes enough revenue to close the structural deficit and restore significant cuts made under the last administration. The proposed tax increases would generate \$892.6 million to balance the 2015/16 budget and \$2.7 billion for 2016/17. See the table on Page 30 for more details.

### Severance Tax

Gov. Wolf proposes to enact a 6.5 percent severance tax on the value of natural gas extracted in the commonwealth. The current impact fee collection and distribution would remain in place, and drilling companies would deduct the amount paid in impact fees from the amount owed in severance tax (i.e. the impact fees would count as a credit against the severance tax). According to administration estimates, the severance tax, which would be effective July 1, 2016, would generate new revenues of \$217.8 million in 2016/17 and \$340.7 million in 2017/18.

### Personal Income Tax

The governor's budget proposal increases the state's Personal Income Tax (PIT) rate from 3.07 percent to 3.4 percent beginning Jan. 1, 2016. The governor estimates this will generate \$555.6 million in 2015/16 and \$1.4 billion in 2016/17.

A modest increase in the personal income tax (PIT) rate, from 3.07 percent to 3.4 percent, would not affect most seniors, low-income families and those who are unemployed. Currently, Pennsylvania's PIT rate of 3.07 percent is the lowest of all states with an income tax (i.e. comparing the top rates). At 3.40 percent, Pennsylvania would have the third-lowest PIT rate in the nation and continue to have the lowest rate compared to its surrounding states.

The PIT increase would cost the average household less than 50 cents per day. The following table shows the impact of the proposed PIT rate increase for various income levels. Note: The median household income in Pennsylvania is \$53,234. (*Source: U.S. Census Bureau, 2014 American Community Survey 1-Year Estimates*) Average-income households in neighboring states pay between 5 percent and 6 percent in income taxes.

Additionally, many taxpayers would be able to offset the PIT increase by applying the federal tax deduction for state income taxes. The federal government would thereby subsidize part of the state PIT increase.

Impact of PIT Increase from 3.07% to 3.4%		
Income	Additional PIT per WEEK	Additional PIT per DAY
\$ 20,000	\$ 1.27	\$ 0.18
\$ 40,000	\$ 2.54	\$ 0.36
<b>\$ 53,234</b>	<b>\$ 3.38</b>	<b>\$ 0.48</b>
\$ 60,000	\$ 3.81	\$ 0.54
\$ 80,000	\$ 5.08	\$ 0.72
\$ 100,000	\$ 6.35	\$ 0.90

PIT Rates of Surrounding States	
State	Top PIT Rate
New Jersey	8.97%
New York	8.82%
Delaware	6.60%
West Virginia	6.50%
Virginia	5.75%
Maryland	5.75%
Ohio	5.39%
Pennsylvania	3.4% (proposed) 3.07% (current)

A portion of the new revenue from the PIT increase would be used to guarantee a partial payment of pension liabilities, with annual transfers of \$560.6 million to the new Pennsylvania Employees' Retirement System (PSERS) Restricted Receipt Account. The first proposed transfer of \$280.3 million in 2015/16 represents a half-of-a-year transfer.

### Increase in PIT Poverty Provision

The governor proposes to expand the special poverty provisions for tax forgiveness by increasing the eligibility income limit for claimants and first dependents (spouses) from \$6,500 to \$8,700. The income limits for claimants and first dependents have not increased since 1998, and the income limits for dependent children have not increased since 2004. Under the proposal, a married couple with two children will pay no PIT if their eligible household income is \$36,400, compared with \$32,000 under current law. The total income limit for a household increases with the number of dependent children, and partial tax forgiveness is available on a sliding scale for slightly higher income levels. For more information on the current provisions, see the committee's [Tax Forgiveness for Personal Income Primer](#).

Many of Pennsylvania's senior citizens also benefit from tax forgiveness. Pennsylvania does not tax most retirement or pension income, including Social Security. Therefore, most retired seniors do not pay PIT, provided their interest, dividends and other earnings or taxable investments do not exceed \$6,500 for an individual or \$13,000 for a married couple.



Tax Forgiveness - A History					
Tax Year	ELIGIBILITY INCOME ALLOWANCE			100% TAX FORGIVENESS	
	Claimant	First Dependent (Spouse)	Each Additional Dependent	Two Parent Family with Two Children	One Parent Family with Two Children
<b>Proposed</b>	<b>\$8,700</b>	<b>\$8,700</b>	<b>\$9,500</b>	<b>\$36,400</b>	<b>\$27,700</b>
<b>2004 -2014</b>	\$6,500	\$6,500	\$9,500	\$32,000	\$25,500
<b>2003</b>	\$6,500	\$6,500	\$9,000	\$31,000	\$24,500
<b>2002</b>	\$6,500	\$6,500	\$9,000	\$31,000	\$24,500
<b>2001</b>	\$6,500	\$6,500	\$8,500	\$30,000	\$23,500
<b>2000</b>	\$6,500	\$6,500	\$7,500	\$28,000	\$21,500
<b>1999</b>	\$6,500	\$6,500	\$6,500	\$26,000	\$19,500
<b>1998</b>	\$6,500	\$6,500	\$6,000	\$25,000	\$19,000
<b>1997</b>	\$6,300	\$4,000	\$4,000	\$18,300	\$14,300
<b>1996</b>	\$6,300	\$3,000	\$3,000	\$15,300	\$12,300
<b>1995</b>	\$6,300	\$3,000	\$3,000	\$15,300	\$12,300
<b>1994</b>	\$6,300	\$3,000	\$3,000	\$15,300	\$12,300

### PIT on Pennsylvania Lottery Winnings

The governor proposes to make state taxation of gambling winnings more consistent with federal law. Currently, all gambling winnings are subject to federal income tax. However, while state income tax is imposed on gambling winnings, Pennsylvania Lottery winnings are specifically excluded.

Also, federal law requires income tax to be withheld from gambling winnings of \$600 or more. Under the governor’s proposal, the state withholding threshold would also apply to winnings of \$600 or more. Taxing state lottery winnings is expected to generate \$2.9 million in 2015/16 and \$16.3 million in 2016/17.

### PIT Revenues from Increased Minimum Wage

Gov. Wolf proposes to increase the minimum wage from \$7.25 per hour to \$10.15 per hour. The administration estimates the increase in taxable wages will generate about \$60 million in additional state personal income tax revenue.

### Sales and Use Tax

The budget proposes to maintain the current Sales and Use Tax rate of 6 percent, but expands the tax to include a few new items and services beginning Apr. 1, 2016. The sales and use tax changes, including capping the sales tax vendor discount, will generate an estimated \$66.1 million in 2015/16 and \$414.6 million in 2016/17.

Gov. Wolf proposes to expand the sales and use tax to include admission to movie theaters, basic cable television services and digital downloads.

- **Digital Downloads** – Currently videos, books, games, photos, software and music are 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. The governor proposes to make a clarification to treat digitally downloaded or accessed content the same as tangible content. The tax would be imposed on the content, but not on the internet service provided. Additionally, this provision would be consistent with the treatment of

other digitally downloaded items, such as custom software, which are currently subject to tax. The sales tax would be imposed on digitally downloaded or accessed video; photographs; books (or otherwise taxable printed material); applications known as apps; games; music; any other audio and canned software.

- **Movie Theater Admissions** – Gov. Wolf proposes to impose sales and use tax on admission to movies in order to be consistent with state taxes on movies purchased or rented (such as DVDs) and movies purchased through streaming or premium cable services. The tax would be imposed on the ticket price to the exhibition or display of motion pictures or videos, including theaters, drive-in theaters, cinemas and festivals.
- **Basic Cable Television** – Currently premium cable and video programming services are taxable [whether transmitted via wires or wireless (i.e. satellite)]. The governor’s proposal would impose sales and use tax on the basic-tier cable services, which would be consistent with the treatment of premium cable services.

### Sales and Use Tax Vendor Discount

The governor also proposes to cap the current one percent vendor discount for timely remittances at \$25 for monthly filers, \$75 for quarterly filers and \$150 for semi-annual filers, beginning Apr. 1, 2016.

### Tobacco Taxes

The budget proposes to increase the cigarette tax by \$1 per pack, from \$1.60 to \$2.60 per pack. In addition to the cigarette tax, the governor **proposes a tax on other tobacco products including large cigars**, roll-your-own tobacco, smokeless tobacco and e-cigarettes, effective Apr. 1, 2016. The proposed rate is 40 percent of the wholesale price, which the governor estimates to be equivalent to the tax on cigarettes. This is expected to generate \$10.6 million in 2015/16 and \$136 million in 2016/17.

- **E-Cigarettes** – The governor proposes to impose a new tax on electronic cigarettes at a rate of 40 percent of the wholesale price. This includes the device which provides vapor for inhalation, as well as the liquid substance used in the device. When a wholesaler sells these products to a retailer, the retailer will be charged the tax. The wholesaler will collect the tax and remit it to the Department of Revenue.
- **Roll-Your-Own Cigarettes** - Tobacco that is labeled “suitable for use” and is likely to be used for consumers to make cigarettes would be taxed at 40 percent of the wholesale price under the governor’s proposal. Adding this tax will assist the commonwealth’s position to retain funds in future litigation surrounding the Tobacco Settlement Fund and the Master Settlement Agreement. This also creates a more level playing field between roll-your-own cigarettes and manufactured cigarettes, especially in light of the proposed cigarette tax increase. This portion of the proposal would be effective July 1, 2016, because of action required by outside parties related to the Master Settlement Agreement.

### Liquor System Enhanced Proceeds

Rather than selling the liquor system for short-term gain and losing a dependable long-term revenue stream, the governor proposes to continue modernizing the wine and spirits system with reforms such as adding Sunday hours, identifying the most convenient locations for customers and competitive pricing. These proposed changes would improve customer convenience and increase current profits available to the General Fund. This proposal assumes \$100 million in additional revenue in 2016/17. The governor also proposes to convene a bipartisan working group to look at ways to further maximize the value of the liquor system.

## Promotional Play at Casinos

Gov. Wolf proposes to impose a new tax on promotional play for slots and table gaming at casinos, and estimates this new tax of 8 percent will generate \$21 million in 2015/16 and \$50.9 million in additional revenue to the General Fund in 2016/17. Currently, the slot machine and table games tax is calculated on wagers, less promotional play; however, in many other states promotional play is included in the tax base. Promotional play at casinos has been a growing segment of slots and table gaming. In 2014/15, casinos issued more than \$622 million in promotional play, and the cumulative total of promotional play issued in Pennsylvania since the inception of casinos is more than \$4 billion.

## Capital Stock and Franchise Tax

The Capital Stock and Franchise Tax (CSFT) was eliminated as of Jan. 1, 2016, according to the phase-out schedule. The governor's budget estimates \$20.1 million in revenue in 2015/16 associated with late payments and filers whose tax year is not consistent with the calendar year. However, unused CSFT credits will transfer to Corporate Net Income Tax (CNIT) liabilities and reduce CNIT revenues in 2016/17 and 2017/18 (according to the Independent Fiscal Office's Economic and Budget Outlook, January 2016.)

## Bank Shares Tax

The budget assumes that legislation is enacted to adjust the Bank Shares Tax to recoup a shortfall in revenue resulting from tax changes enacted in 2013 (Act 52) - changes that were intended to be revenue neutral. The Department of Revenue has issued temporary bulletins attempting to recoup lost revenue; however, it is questionable whether this will withstand a court challenge. The proposal increases the rate from 0.89 percent of the book value of shares to 0.99 percent for tax years beginning in 2016. This is expected to generate \$37.4 million in 2015/16 and \$39.2 million in 2016/17.

## Insurance Premiums Tax

The governor's proposal includes an additional surcharge of 0.5 percent of gross premiums to be levied on property, casualty and fire insurance premiums, effective Jan. 1, 2016. The proposal estimates \$80.7 million in 2015/16 and \$100.9 million additional revenue in 2016/17 to be deposited in the General Fund. Also, an additional \$10 million attributable to the surcharge would be transferred to a restricted account to assist volunteer fire companies each year.

<b>Tax and Revenue Package</b>			
<i>(\$ Amounts in Millions)</i>			
<b>Tax Type</b>	<b>2015/16</b>	<b>2016/17</b>	<b>Impact</b>
<b>Capital Stock and Franchise Tax</b> Current law	\$ -	\$ -	Expired as of Jan. 1, 2016
<b>Severance Tax</b> 6.5% of value; credit for impact fee	\$ -	\$ 217.8	Effective July 1, 2016
<b>Personal Income Tax</b>			
Increase rate from 3.07% to 3.4%	\$ 555.6	\$ 1,361.5	Effective Jan. 1, 2016
Increase Tax Forgiveness to 150% of poverty	\$ (3.9)	\$ (83.4)	A family of four with income of \$36,400 will pay no income tax.
PA Lottery winnings	\$ 2.9	\$ 16.3	Effective Jan. 1, 2016
<b>Sales and Use Tax</b>			
Basic Cable Television	\$ 38.9	\$ 237.4	Effective Apr. 1, 2016
Movie Theater Admissions	\$ 12.8	\$ 88.3	Effective Apr. 1, 2016
Digital Downloads	\$ 3.7	\$ 22.3	Effective Apr. 1, 2016
Vendor Discount Cap of \$25 per Month	\$ 10.7	\$ 66.6	Effective Apr. 1, 2016
<b>Bank Shares Tax</b> Rate from 0.89% to 0.99%	\$ 37.4	\$ 39.2	Effective beginning tax year 2016
<b>Insurance Premiums Tax</b> 0.5% on fire, property and casualty premiums	\$ 80.7	\$ 100.9	Effective Jan. 1, 2016
<b>Cigarette Tax</b>			
Increase state tax rate by \$1 per pack from \$1.60 to \$2.60	\$ 118.6	\$ 454.1	Effective April 1, 2016
Sales and Use Tax on higher cigarette price	\$ 3.6	\$ 14.0	Effective April 1, 2016
<b>Other Tobacco Products</b>			
Cigars - 40% of wholesale price	\$ 3.0	\$ 38.2	Effective May 1, 2016
Smokeless Tobacco - 40% of wholesale price	\$ 5.5	\$ 69.3	Effective May 1, 2016
Roll-Your-Own - 40% of wholesale price	\$ -	\$ 5.7	Effective July 1, 2016
E-cigarettes - 40% of wholesale price	\$ 1.5	\$ 20.0	Effective May 1, 2016
Sales and Use Tax on higher tobacco price	\$ 0.6	\$ 2.8	Effective May 1, 2016
<b>Promotional Play at Casinos</b> 8% tax on promotional slots and table games play	\$ 21.0	\$ 50.9	Effective Jan. 1, 2016
<b>TOTAL PROPOSED TAX &amp; REVENUE PACKAGE</b>	<b>\$ 892.6</b>	<b>\$ 2,721.9</b>	
Note: Tax revenue estimates are net of refunds of \$113.3 million (total revenue modifications before refunds is \$2.835 billion in 2016/17).			
Source: Governor's 2016/17 Executive Budget Proposal.			