2017/18 BUDGET BRIEFING
Report on Key Issues
HOUSE APPROPRIATIONS COMMITTEE (D)
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2017/18 General Fund Budget Overview of Revenue, Expenditures

The state budget and its several components should be passed by the legislature and signed by the governor before midnight June 30 to ensure the continuation of funding for critical programs.

However, the General Assembly only adopted the General Appropriations bill by that deadline, and it then lapsed into law July 11 having neither been signed nor vetoed by the governor.

The "housekeeping" appropriation bills involving agencies such as the PUC, Gaming Control Board, Small Business Advocate, SERS and PSERS, etc., became law later in July.

The remaining budget related bills became law in late October, including, for the first time in more than a year, the capital budget, which the Pennsylvania Constitution requires to be passed into law at the start of each fiscal year.

The 2017/18 budget package includes the following:

- General Appropriations (Act 1A/HB 218) – Lapsed into law July 11.
- Fiscal Code (Act 44/HB 674) – Signed by the governor Oct. 30.
- Capital Budget (Act 45/HB 785) – Signed by the governor Oct. 30.
- Capital Budget Project Itemization (Act 52/SB 651) – Signed by the governor Oct. 30.
- "Housekeeping" Appropriations (Acts 2A-10A/SBs 680-688) – Lapsed into law July 21.
- Non-Preferred Appropriations (Acts 11A-15A/SBs 325-329) – Signed by the governor Oct. 27.
- Tax Code (Act 43/HB 542) – Signed by the governor Oct. 30.
- Administrative Code (Act 40/HB 118) – Signed by the governor Oct. 30.
- Gaming (Act 42/HB 271) – Signed by the governor Oct. 30.
- Human Services Code (HB 59) – Vetoed by the governor Oct. 19.
- Public School Code (Act 55/HB 178) – Lapsed into law Nov. 6.

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How the 2017/18 Budget was Balanced

The 2016/17 fiscal year ended with a $1.5 billion deficit, as required expenditures continued to outpace projected revenues. The 2017/18 spending plan, Act 1A of 2017, became law July 11 and contained preferred General Fund Appropriations of $31.996 billion. This spending package, however, along with non-preferred appropriations bills (later enacted in October), left a deficit of about $2.2 billion.

Between July and October, Republican proposals to close this gap continued to fall under their own weight.

- The Senate-proposed gross receipts tax on gas, electric and telecom did not garner enough support in the House.
- The House Republican plan to raid special funds threatened cuts for many vital programs. What House Republicans believed were unspent balances in these funds were largely dedicated revenue for prior commitments and obligations.
- Finally, talk of commercial storage and hotel taxes never made it into bill form as lawmakers quickly realized the two forms of recurring revenue would have a detrimental impact on Pennsylvania businesses and tourism.

On Oct. 30, the governor signed the Tax and Fiscal codes and the gaming expansion bill to provide enough funds to finally declare a "balanced budget."

Tax Code

The largest piece of funding is $1.5 billion in borrowing against future Tobacco Settlement Agreement funds, which is contained in the Tax Code (Act 43).

Recurring revenues in the Tax Code are an estimated $30.6 million in 2017/18 and $93.8 million in 2018/19, and will come from sales tax remittance requirements for online marketplace providers, a new fireworks tax, and revenue maximization on current taxes by requiring withholding on non-resident income and by shortening an appeals period from 90 days to 60 days.

Act 43 also contains numerous other provisions with no significant fiscal impact. For a detailed explanation of those changes, refer to the Tax Code summary on the HACD website.

While the Tax Code allows for the securitization of Tobacco Settlement Agreement funds, the governor had also considered securitizing the profits of the Liquor Control Board, a move he believed did not require legislative authority. However, at the time of publication, the Commonwealth Financing Authority has approved a resolution to authorize the executive director to initiate tobacco securitization and the administration has issued a statement that it will respect the action taken by the CFA in place of the LCB option.

Fiscal Code

The Fiscal Code, Act 44, contains significant revenue sources to balance the budget, including a $200 million transfer from the Joint Underwriting Association, $300 million in fund transfers to be determined by the governor, and a timing change on casino table games fees.

The $200 million payment from the Pennsylvania Professional Liability Joint Underwriting Association, or JUA, is to be paid to the state's General Fund on or before Dec. 1, 2017. The JUA, established under Act 111 of 1975, is a nonprofit entity acting as an insurer of last resort for individuals and providers unable to obtain medical professional liability insurance through standard channels. All funds deposited from the JUA to the General Fund must be directed to appropriations in the Department of Human Services for expenditures related to Medical Assistance Capitation payments. This language was requested by the JUA to ensure the use of funds complies with its core mission; *however, the JUA has since filed a lawsuit to block the transfer on grounds that it is unconstitutional and would seriously imperil its ability to adequately cover obligations to policy holders.*

The Fiscal Code does not specify sources of funds for the $300 million transfer from special funds to the General Fund. However, the governor intends to fulfill the bulk of this requirement though a leasing arrangement on the Farm Show complex for $200 million, in addition to $45 million in debt refinancing, about $40 million from various settlement agreements and other leave payout accounts.

A timing change in the Fiscal Code related to gaming expansion increases anticipated revenue in 2017/18 that would otherwise be realized in a future fiscal year. The certificate fee of $24.75 million for operating table games at a casino would normally be payable at the time the table games are ready to be operational. In other words, the casino would have to be built, furnished and ready to be open to the public before the fee is paid. The provision in this Fiscal Code act requires the table games certificate fee to be paid by June 30, 2018, for any slot machine license issued in 2017/18. It is anticipated that the slot machine license for the Live! casino in Philadelphia will be issued in 2017/18, triggering this payment of the table games fee.

For more detailed information about the Fiscal Code, refer to the summary on the HACD website.

Gaming

Significant gaming expansion, mainly in the form of internet gaming and satellite casinos, received the governor's signature Oct. 30 as Act 42. The new measure also allows for airport gaming, video gaming terminals at truck stops, internet lottery and fantasy sports. This is a very comprehensive act with many complex changes and a variety of licensing options in which casinos may or may not choose to participate.

The budget is balanced on the assumption of $200 million in net revenues to the General Fund in 2017/18; however there are many factors outside the reach of the legislation that could affect the final outcome of total revenue. For more information on the significant elements of Act 42, read our analysis found on the HACD website.

Revenues

Official revenue estimates by the Revenue and Budget secretaries for 2017/18 look to $34.7 billion in General Fund revenues, including $2.2 billion from the total revenue package. After factoring a $1.5 billion beginning balance, $31.996 billion in spending, refunds and lapses, the Budget Office estimates the General Fund will balance with a margin of less than $10 million at the end of the year.

Cash Flow

Since the beginning of the Great Recession, Pennsylvania has faced a significant structural deficit. While the commonwealth has made progress, it has yet to properly bridge this chronic revenue problem.

Various one-time cash infusions spanning many years – like federal funds from the American Recovery and Reinvestment Act, transfers from special funds, or postponing large payments owed to vendors – have been used to close General Fund imbalances.

However, the failure to comprehensively and sustainably address the mismatch between revenues and expenditures has caused intermittent cash flow problems for the commonwealth that have required borrowing from the Pennsylvania Treasury's investment funds to prevent the balances from dropping into negative territory within the fiscal year. At times, these short-term loans have exceeded $2 billion.

Standard & Poor's cited the commonwealth's structural deficit as one of the reasons it downgraded Pennsylvania's credit rating in September before the budget package was fully enacted, the most recent of numerous downgrades by the ratings agencies over the past several years.

"As we have previously stated," S&P explained with its downgrade, "we expect that the commonwealth will continue to make required adjustments to address near-term cash flow needs and will balance its fiscal 2018 budget, as constitutionally required. However, given the state's recent track record, in our view it may not make sufficient structural reforms to significantly alleviate budgetary pressures."

Now that the full budget package has been enacted, we will carefully monitor cash flow throughout the fiscal year .We are hopeful we will be back in positive territory within the short term.

Revenue Package Summary for the 2017/18 Budget
(Amounts in Millions)

Revenue Source	Description	2017/18	2018/19
	Tax Code - Act 43 (House Bill 542 PN 2598)		
	Sales and Use Tax		
Online Marketplace Providers	Gives online marketplace providers the option to either collect and remit sales and use tax as if they were the vendor or submit documentation of sales to the Department of Revenue. The department would then use that information to attempt to collect use tax from purchasers.	$ 8.0	$ 50.5
	Fireworks Tax		
Fireworks Tax	This is a new tax imposed on a new category of consumer fireworks made legal by this bill at a rate of 12%.	$ 2.8	$ 8.7
	Revenue Maximization		
Personal Income Tax - Non-resident Withholding	Requires withholding of current tax liabilities by businesses paying income to out-of-state lessors of real estate and contract employees working in state.	$ 9.8	$ 24.6
Appeals Period	A timing change on petitions for reassessments in the appeals process would be shortened from 90 days to 60 days.	$ 10.0	$ 10.0
Subtotal Net Tax Revenue		**$ 30.6**	**$ 93.8**
	Borrowing - Tobacco Securitization		
Tobacco Securitization	Authorizes the Commonwealth Financing Authority to issue bonds against future Tobacco Settlement Agreement funds or authorizes the Executive Director of the CFA to solicit bids for the sale of future funds to net $1.5 billion in lieu of issuing bonds.	$ 1,500.0	$ -
Subtotal Tax Code Revenue		**$ 1,530.6**	**$ 93.8**
	Fiscal Code - Act 44 (House Bill 674 PN 2624)		
Joint Underwriting Association Transfer to the General Fund	$200 million shall be transferred from the Pennsylvania Professional Liability Joint Underwriting Association (JUA) on or before Dec. 1, 2017.	$ 200.0	$ -
Transfers to the General Fund	$300 million to be transferred from special funds and restricted accounts to the General Fund. The budget secretary shall transmit a list of the amounts to be transferred to the Treasurer, who will then move the money to the General Fund.	$ 300.0	$ -
Table Games License Fee	$24.75 million fee to be paid by June 30, 2018 for any slot machine license issued in 2017/18. This provision changes the timeline for payment of fees but does not change the amount due. A previous year's Fiscal Code required all slot machine license fees to be deposited into the General Fund for any license fee received by the Board after June 30, 2014.	$ 24.8	$ -
Subtotal Fiscal Code		**$ 524.8**	**$ -**
	Gaming Expansion - Act 42 (House Bill 271 PN 2598)		
Gaming Expansion	The significant revenue generating components include internet gaming, Category 4 satellite casinos, iLottery video gaming terminals at truck stops, airport gaming, allowances for Category 3 casinos and fantasy sports.	$ 200.0	$ 100.0
Subtotal Gaming Revenue		**$ 200.0**	**$ 100.0**
Total Net Revenue		**$ 2,255.4**	**$ 193.8**

2017/18 General Fund Budget Balancing Measures to Monitor (Amounts in Millions)	
EXPENDITURES	
General Fund Expenditures Shifted Offline or to Special Funds	**$208.8**
Marginal increase in school construction (PlanCon) bond debt service shifted offline.	$8.8
Use of one-time funds to pay 2017/18 Medical Assistance Capitation.	$200.0
Other Questionable/Unsustainable Budget Savings	**$282.2**
2017/18 Medical Assistance expenditures rolled back to 2016/17.	$171.0
Authority rentals & sinking fund requirements (PlanCon) reduced reliance on bond proceeds.	$111.2
Subtotal Expenditures	**$491.0**
REVENUES	
Transfers to General Fund	**$530.4**
Transfers to General Fund - The Fiscal Code requires the governor to transfer $300 million from special funds and restricted accounts to the General Fund. This will most likely consist of $200 million from a Farm Show Lease, $45 million in debt refinancing, $40 million from various settlement agreements and $12 million from leave payout accounts.	$300.0
Transfer from Joint Underwriting Association (JUA) - A portion of the unappropriated surplus of the JUA shall be transferred from the Pennsylvania Professional Liability JUA on or before Dec. 1, 2017. The JUA filed a lawsuit against this, so the receipt of this money is questionable.	$200.0
Volkswagen Settlement - One-time revenue transferred to General Fund.	$30.4
Other Questionable/Unsustainable General Fund Revenue Raisers	**$1,766.2**
Table Game License Fee - Fee to be paid by June 30, 2018, for any slot machine license issued in 2017/18. This provision changes the timeline for payment of fees but does not change the amount due. A previous year's Fiscal Code required all slot machine license fees to be deposited into the General Fund for any license fee received by the board after June 30, 2014.	$24.8
Slot Machine License Fee - Fee from the anticipated award of the Live! Casino in Philadelphia is assumed in base revenues.	$50.0
Gaming Expansion - A significant portion of the expanded gaming revenue in the near term comes from one-time fees.	$191.4
Monetization of Tobacco Master Settlement Agreement revenues.	$1,500.0
Subtotal Revenues	**$2,296.55**
Total	**$2,787.55**

Education

K-12

The 2017/18 budget impacts basic, special, and early education in the following ways:

- $100 million increase for basic education funding.
  - The total distributed through the fair funding formula would be $452 million, or 7.6 percent, of PA's $6 billion appropriation for basic education.
  - Funding by district is available on the HACD website.
- $25 million increase in special education funding.
- $30 million increase for early education funding ($25 million for Pre-K Counts and $5 million for Head Start Supplemental Assistance).
  - The governor's proposed budget called for a $75 million increase.
  - The House-passed budget (HB218, PN1236) included a $25 million increase.
- Flat-funding for the Ready-to-Learn Block Grant.

Pupil transportation is flat funded.

There are a number of important education policy changes in this budget.

- Highlighted policy changes contained in the accompanying Fiscal Code:
  - The amount of funding that Erie School District receives through the educational access program appropriation in 2017/18 (expected to be $14 million of the $23.15 million appropriated) will be considered part of the school district's base allocation for basic education funding in 2018/19 and beyond. The base allocation is an amount a school district is guaranteed to get each year.
  - If not for substantially equivalent provisions placed in the Education and Fiscal Codes, the School District of Philadelphia's share of state education subsidies would have been significantly reduced over the next few fiscal years due to Philadelphia County's recent property tax reassessment's effect on its market values. Further analysis will be forthcoming.
- Highlighted policy changes contained in the accompanying Education Code:
  - The total aggregate amount available for the Education Improvement Tax Credit went from "shall not exceed $125 million" to "shall not exceed $135 million," which is a $10 million, or 8 percent, increase in the cap.
  - The new fair funding formula for basic education funding was tweaked to address a fairness issue. The tweak changes the calculation for current expenditures to allow for the deduction of tuition for patrons (a concept also included in the costing out study), since those students are not counted in a district's average daily membership. There is also language that explicitly aligns statute with PDE's practice of when to lock in data in the basic education formula.
    - ➢ The House Appropriations Committee will soon release a basic education funding formula primer.
  - A district in financial watch status and receiving educational access program funding in 2017/18 (i.e. Erie School District) will have a financial administrator appointed for them who will work to develop a financial improvement plan for the district. Correspondingly, the undistributed funds PDE is authorized to use for districts in financial recovery or watch status is increased from $4.5 million to $5 million for 2017/18.
  - A dispute regarding a $9 million basic education funding underpayment in prior years for Philadelphia School District was unaddressed. However, language clarifies a fix moving forward beginning in 2017/18.

- The moratorium for new projects applying for PlanCon, the state's school construction reimbursement program, is continued for 2017/18 while the committee established to recommend ways to improve the program finalizes its report (due Jan. 31, 2018).

  ➢ Stay tuned for a PlanCon update after the second PlanCon bonds are issued.

- There are also provisions for school director training programs, teacher furloughs for economic reasons, 'lunch shaming', opioid abuse prevention education, a plan review for ESSA, multiple charter school organizations, and many others.

Higher Education

The 2017/18 budget provides some limited increases for institutions of higher education, including:

- a 2 percent increase for the Pennsylvania State System of Higher Education, or PASSHE - $8.9 million,
- a 7.5 percent increase for Thaddeus Stevens College of Technology - $1 million,
- a 10 percent increase for the Pennsylvania College of Technology (part of the Penn State non-preferred appropriation bill) - $2 million, and
- a $200,000 increase for Pitt's rural education outreach appropriation.

Community colleges, and the general support appropriations for the state-related universities (Penn State, Pitt, Temple and Lincoln) are flat funded.

Under PHEAA, institutional assistance grants for students attending private colleges and universities are also flat-funded as are the PHEAA grants.

The Fiscal Code directs PHEAA to transfer $4.55 million of its business earnings to support the Department of Health's Primary Health Care Practitioner Loan Forgiveness program, which was previously funded by a General Fund appropriation. This program helps attract and retain doctors to medically underserved areas by assisting with their educational debt.

Also under the Fiscal Code, PHEAA will direct an additional $500,000 for the Cheyney Keystone Academy.

Pensions

The 2017/18 budget fully pays both state pension systems' annual required contributions, or ARC, which is the first time this has happened in 16 years for the State Employees' Retirement System (SERS) and the second time in as many years for the Public School Employees' Retirement System (PSERS).

Each system's respective increase reflects the multi-year and predictable adjustments in employer funding to pay down the state's unfunded pension liability debt pursuant to the funding schedule under the Act 120 reforms of 2010 and continued with Act 5 of 2017.

While the contribution amounts increased, the magnitude of the increases is beginning to rapidly diminish as more of the contributions pay down the debt (e.g., 75 percent of PSERS' and 85 percent of the SERS employer contribution goes to the pension debt).

For the annually required employer contribution made to PSERS', the 2017/18 budget includes $2.264 billion in state General Funds, which is an increase of $200 million, or 9.7 percent, from 2016/17. For the second time in 16 years, the employer contribution made by the state is providing 100 percent of the actuarially required contribution.

SERS' annually required employer contribution is allocated throughout every appropriation that includes personnel expenditures. Across the multitude of appropriations from a variety of state and federal funding sources, the 2017/18 budget includes roughly $740 million in state General Funds for offices under the governor's jurisdiction, which is about $76 million, or 11 percent, more than 2016/17. For the first time in 16 years, the state's employer contribution will provide 100 percent of the actuarially required contribution.

The retirement systems are authorized to spend $72.1 million for their administration via Act 2A of 2017 ($26.2 million for SERS) and Act 3A of 2017 ($45.9 million for PSERS). These acts did not include additional funding to implement the provisions of the new retirement plan design for future employees as directed by Act 5.

Act 5 requires new employees to select one of three new retirement plan design options, effective Jan. 1, 2019, for SERS and July 1, 2019, for PSERS. Both systems require start-up funding for personnel and operations to implement the provisions of the new law. The Internal Revenue Code, however, prohibits funding for the defined contribution (DC) components of the new plan design to come from the systems' trust funds. However, funding for the defined benefit (DB) component is permissible.

To remedy the lack of funding, the Fiscal Code directs $5.3 million in start-up funding to SERS and $6.8 million in start-up funding to PSERS for personnel and operations needed to implement the provisions of Act 5 just for the DC components of the plan design.

Health and Human Services

At this time, state agencies will not consolidate into a new Department of Health and Human Services, as the governor proposed. The enacted 2017/18 budget maintains separate funding for the departments of Human Services, Health, Aging, and Drug and Alcohol Programs. The table (below) shows total state appropriations, by fund name, for each of these agencies.

2017/18 State Appropriations in Act 1A of 2017, by Fund Name and Department

(Amounts in Thousands)

Fund Name	Dept. of Human Services	Dept. of Health	Dept. of Drug & Alcohol Programs	Dept. of Aging
General Fund	$12,132,799	$185,628	$46,227	
Lottery Fund	$308,249			$504,280
Tobacco Settlement Fund	$115,747			
Emergency Medical Services Operating Fund		$13,900		

Should legislation be enacted during 2017/18 to merge or consolidate any combination of the four agencies, language in Section 2112 of the budget act would provide for the transfer of the state appropriations, together with federal appropriations, to the new agency.

Health

Although the budget does not consolidate the Department of Health into a larger, unified agency, its funding reflects a continuing focus on cost efficiencies. Most notably, funding for the state health care centers drops $13 million, or 55.7 percent, reflecting the shift from physical locations to more mobile nursing units based out of county assistance offices.

All of the disease- and research-specific appropriations within the department have been restored to prior year levels, with the exception of bio-technology research, whose appropriation fell $1.2 million, or 18.1 percent.

The budget package increases the fee people have to pay to receive a certified copy of a death certificate: $9 to $20. A portion of this fee is directed to the Department of Health and will offset funding reductions in the vital statistics appropriation.

Drug and Alcohol Programs

The main appropriation within the department – assistance to drug and alcohol programs – provides grants to single county authorities across the state to develop and implement programs to prevent and address substance abuse. The 2017/18 budget reduces this appropriation by $750,000, which reflects the removal of a prior earmark.

Human Services

The 2017/18 budget appropriates $12.1 billion from the General Fund to the Department of Human Services, a $247 million decrease from the revised 2016/17 budget, which counted a supplemental appropriation increase of $397 million, detailed below:

- $224 million is the net increase in 2016/17 expenditures, and represents the difference from the amounts appropriated in 2016/17 (Act 16A of 2016) and 2015/16. Seven appropriations required a total $404 million adjustment to cover expenses that exceeded original funding levels. Supplemental decreases, totaling $180 million, occurred with four appropriations where expenditures did not approach budgeted funding levels.
- In a budgetary maneuver that alters the year in which expenditures are booked, $173 million in 2017/18 expenditures were rolled back to 2016/17.

(Amounts in Thousands)			
	Total	*Reason for Increase/Decrease*	
Appropriation	2016/17 Supplemental Appropriation	*Change in 2016/17 Expenditures*	*Rollback of 2017/18 Expenditures*
Home and Community Based Services	$124,266	*$111,081*	*$13,185*
Intellectual Disabilities - Commmunity Waiver Program	$66,000	*$66,000*	
Services to Persons with Disabilities	$64,353	*$64,353*	
Attendant Care	$55,261	*$55,261*	
Medical Assistance Fee for Service	$54,680	*$54,680*	
Payment to Federal Government for Medicare Drug Program	$104,040	*$29,040*	*$75,000*
Medical Assistance for Workers with Disabilities	$24,023	*$24,023*	
Medical Assistance Capitation	($176,395)	*($176,395)*	
Autism Intervention and Services	($2,337)	*($2,337)*	
Supplemental Grants - Aged, Blind and Disabled	($1,242)	*($1,242)*	
Special Pharmaceutical Services for Schizophrenia	($82)	*($82)*	
Long Term Care	$85,000		*$85,000*
TOTAL	$397,567	*$224,382*	*$173,185*

In addition to the expenditure rollback, the decrease in the DHS' 2017/18 budget reflects two factors that reduced state spending for Medical Assistance capitation by $384 million: increased use of other funds (namely revenue from the managed care assessment and managed care gross receipts tax) to pay for Medical Assistance expenditures; and federal suspension of the health insurance premium fee paid by managed care organizations.

- The department increased the assessment on managed care organizations, generating an additional $109 million for 2017/18.
- Higher-than-anticipated collections for the final managed care gross receipt tax payment (due March 15, 2017) provided an additional $200 million to fund 2017/18 expenditures.
- Federal legislation (signed by President Obama in December 2015) suspended the annual insurer fee in the Affordable Care Act, saving the state nearly $75 million in 2017/18.

The enacted budget funds Medicaid health care coverage for more than 2.9 million Pennsylvanians. **There are no work requirements, benefit reductions, or eligibility restrictions.** In fact, Gov. Wolf vetoed the Human Services Code (House Bill 59) because it would have resulted in higher costs for health care, reduced benefits, and terminated coverage.

The budget also provides funding through various appropriations so that more Pennsylvanians may receive home- and community-based services in 2017/18, including:

- 1,788 additional seniors in the aging waiver;
- 600 more seniors in the LIFE program;
- 1,812 additional adults with physical disabilities in the independence waiver;
- 840 more adults receiving attendant care;
- 50 additional adults with autism spectrum disorders in the autism waiver;
- 820 graduates from special education receiving employment and community services; and
- 1,000 individuals with intellectual disabilities being removed from the emergency waiting list.

The 2017/18 budget contains funding for the first phase of Community HealthChoices -- the department's Medicaid managed long term care program that is set to begin January 2018 in southwest Pennsylvania -- to give seniors and adults with physical disabilities more opportunities to remain in their homes.

The department's budget also attempts to address the needs of Pennsylvania's children and families by including $10 million for child care services to take 1,800 children off of the waiting list, and by adding $5 million for community-based family centers to expand evidence-based home visiting services for pregnant women, infants, and young children.

More detail on the 2017/18 DHS budget will be provided in separate budget briefings. These briefings will be posted on the HACD website.

Tobacco Settlement Fund

The enacted 2017/18 budget contains $362.3 million in Tobacco Settlement Funds for various health-related programs.

- $118.7 million for Act 1A appropriations, including $115.7 million for long-term care in the Department of Human Services and $3 million for life sciences greenhouses in the Department of Community and Economic Development.
- Executive authorizations of $243.6 million for home and community-based services, hospital uncompensated care, CURE research, and tobacco use prevention and cessation programs. The amount of each authorization is based on the Fiscal Code formula for distributing Pennsylvania's annual tobacco payments.

Through amendments to the Fiscal Code (Act 44 0f 2017), the General Assembly modified the statutory formula for distributing tobacco payments in the 2017/18 budget. The modified formula redirects additional funds to long term care by eliminating the 8 percent allocation for PACENET and increasing the allocation for health-related purposes from 22.72 percent to 30.72 percent. This same formula modification was enacted for 2016/17.

(Amounts in Thousands)	
Tobacco Settlement Fund	**2017/18**
Executive Authorizations:	
Home and Community-Based Services	$45,706
Tobacco Use Prevention and Cessation	$15,822
Health Research - Health Priorities	$44,300
Health Research - National Cancer Institute	$3,516
Hospital Uncompensated Care	$28,760
Medical Assistance for Workers with Disabilities	$105,476
PACEnet Transfer	$0
Appropriations for Health-Related Purposes:	
Medical Assistance - Long Term Care	$115,747
Life Sciences Greenhouses	$3,000
TOTAL	**$362,327**

Tobacco Securitization/Monetization in Tax Code (Act 43 of 2017)

Act 43 of 2017 authorizes the monetization of up to $1.5 billion of the commonwealth's future Master Settlement Agreement revenues, and it tasks the Commonwealth Finance Agency with choosing one of two options for the financing:

1. A bond issuance secured by MSA revenues to be repaid using whatever required portion of MSA revenues to meet annual debt service payments. The bonds issued under this option would have a maximum term of 30 years, or

2. A liquidation requiring all, or a portion, of the revenues due to the commonwealth under the MSA over a period of up to 10 years to be sold in return for a lump-sum payment.

In either option, the proceeds of the transaction would be deposited into the General Fund, and the other party in the transaction (bondholder or purchaser) would only be entitled to MSA revenues. They would have no claim against other assets or revenues of the commonwealth in the event MSA revenues were insufficient to meet the financial commitments of the deal.

Tobacco Settlement Fund monetization will impact the revenues available under the MSA for programs in Pennsylvania by, 1) diverting revenues to pay debt service on the monetization (whichever alternative is chosen) will mean less funds available to support programs; and 2) because of the costs associated with monetization, the total funds available will be greatly reduced as the commonwealth is required to pay interest on the lump sum received.

Detailed information on the Tobacco Settlement Fund will be provided in a separate budget briefing. The briefing will be posted on the HACD website.

Lottery Fund

The 2017/18 budget contains nearly $1.25 billion for various programs benefitting Pennsylvania seniors, and it includes Lottery Fund appropriations for programs in the departments of Aging and Human Services. Executive authorizations authorize Lottery Funds to support PennDOT's free/shared ride programs and Revenue's property/tax rent rebate program.

2017/18 Lottery Fund Spending for Senior Programs	
Appropriations and Executive Authorizations	(Amounts in Thousands)
Department of Aging:	
PennCARE	$336,062
Pharmaceutical Assistance Fund Transfer (PACE)	$125,000
Pre-Admission Assessment	$19,916
Caregiver Support	$12,103
Grants to Senior Centers	$2,000
Alzheimer's Outreach	$250
Department of Human Services:	
Medical Assistance Long-Term Care	$184,081
Home and Community Based Services	$120,668
Medical Assistance Transportation	$3,500
Department of Revenue:	
Property Tax/Rent Rebate	$264,700
Department of Transportation:	
Transfer to Public Transportation Trust Fund (free ri	$95,907
Older PA Shared Rides	$82,975
TOTAL	$1,247,162

The Pharmaceutical Assistance Fund appropriation was predicated on savings associated with reducing the dispensing fee (paid to pharmacies) for the PACE and PACENET programs from $13 per prescription to $7 per prescription, as proposed by the governor. However, the Administrative Code (Act 40 of 2017) reduces the fee to $10.49 per prescription, which means additional Lottery Funds may need to be transferred to the PACE Fund to cover program costs. Preliminary estimates indicate a supplemental appropriation increase of $30 million for 2017/18.

Gaming legislation (Act 42 of 2017) authorizes the Department of Revenue to operate iLottery and internet instant games, which is expected to generate approximately $19 million in net profits to fund senior programs in 2017/18. This revenue will help to close (but not eliminate) the projected Lottery Fund deficit.

Additionally, the gaming legislation establishes the Lottery Sales Advisory Council and a retail incentive program. The council is to serve in an advisory capacity and develop recommendations for increasing lottery sales and encouraging further cooperation between the state lottery and licensed lottery sales agents. The incentive program is designed to reward lottery sales agents who implement recommended best practices and, as a result, increase sales.

More detailed information on the State Lottery Fund is provided in a separate budget briefing available on the HACD website.

Environment

The Department of Environmental Protection has regularly informed the General Assembly about the negative consequences of years of underinvestment, up to and including jeopardizing its core mission. Unfortunately, this trend is continuing in DEP's 2017/18 budget as General Fund spending is down $636,000 to $147.7 million.

With the exception of appropriation increases for environmental protection operations (1.2 percent) and black fly control (0.7 percent), every DEP appropriation received a decrease in 2017/18.

Most notably, the budget cuts in half DEP's appropriations for Pennsylvania's share of operating expenses to a number of interstate compacts, including the Office of the Delaware River Master, Susquehanna River Basin Commission, the Interstate Commission on the Potomac River, Delaware River Basin Commission, and Ohio River Valley Water Sanitation Commission.

At the same time, the 2017/18 Fiscal Code directs the auditor general to audit the Susquehanna River Basin and the Delaware River Basin commissions. This will negatively impact these commissions, financially, as the Fiscal Code also directs DEP to provide quarterly reimbursements to the auditor general to pay for the audit. These funds are to come from the already underfunded appropriations for the interstate commissions.

The 2017/18 budget also reduces the General Fund budget for the Department of Conservation and Natural Resources. DCNR will receive $105.5 million in 2017/18, which is a $1.3 million, or 1.3 percent, decrease over 2016/17.

Decreased General Fund appropriations for state parks and forests are backfilled with funding from the Oil and Gas Lease Fund. The table to the right shows funding by appropriation and source. When factoring in Oil and Gas Lease Fund transfers, DCNR will see a slight increase in these appropriations, from $131.5 million in 2016/17 to $135.2 million in 2017/18.

DCNR State Parks and State Forests Appropriation Source Comparison				
(Amounts in Thousands)				
General Fund				
	Actual	Available	Compare	
	2016/17	2017/18	$ Change	% Change
State Parks Operations	$ 54,450	$ 51,171	$ (3,279)	-6%
State Forest Operations	$ 27,104	$ 22,742	$ (4,362)	-16%
General Operations	$ -	$ -		
DCNR Other*	$ 25,407	$ 31,673	$ 6,266	25%
General Fund Total:	$ 106,961	$ 105,586	$ (1,375)	-1%
Oil and Gas Lease Fund				
State Parks Operations	$ -	$ 7,739	$ 7,739	
State Forest Operations	$ -	$ 3,552	$ 3,552	
General Operations	$ 50,000	$ 50,000	$ -	
Oil and Gas Lease Fund Total:	$ 50,000	$ 61,291	$11,291	23%
General Fund + Oil and Gas Lease Fund				
State Parks Operations	$ 54,450	$ 58,910	$ 4,460	8%
State Forest Operations	$ 27,104	$ 26,294	$ (810)	-3%
General Operations	$ 50,000	$ 50,000	$ -	0%
Total, Both Funds:	$131,554	$135,204	$3,650	3%
*Includes appropriations for General Government Operations, Annual Fixed Charges, and Heritage and Other Parks				

Of DCNR's appropriation, $7.7 million will be directed to payment in lieu of taxes for forest lands, representing a $5.1 million increase over 2016/17. This large increase was prompted by 2016/17 Fiscal Code language that increased the payment on state-owned forest lands from $3.60/acre to $6/acre.

The Fiscal Code also earmarks $2.25 million from state park operations for Washington Crossing State Park's maintenance and operation. This language also appeared in the 2015/16 and 2016/17 Fiscal Codes.

The Administrative Code requires DCNR to conduct a feasibility study for the establishment of a state park in Wyoming County. Results of this study will be shared with the General Assembly within one year and include real property appraisal for the proposed state park.

The 2017/18 Fiscal Code continues the Oil and Gas Lease Fund as a special fund, delineating sources of revenue for the fund, restricting the use of funds to purposes consistent with the Pennsylvania Constitution's environmental rights amendment (Article I, Section 27), and permanently altering transfer amounts from the fund.

The Fiscal Code authorizes the annual transfer of $20 million from the Oil and Gas Lease Fund to the Environmental Stewardship Fund. Act 13 of 2012, which overhauled the commonwealth's oil and gas laws, directed a $35 million transfer. This new language, therefore, reduces funding for environmental programs and initiatives by $15 million annually, further limiting the positive impacts of the state's Growing Greener program.

The Fiscal Code also provides a $15 million annual transfer from the Oil and Gas Lease Fund to the Hazardous Sites Cleanup Fund, which is consistent with language previously adopted in Act 13. However, the Hazardous Sites Cleanup Fund remains without a substantive revenue source following the expiration of the Capital Stock and Franchise Tax last year. DEP has warned that without a replacement revenue source the hazardous sites cleanup program will be compromised and, likely, downsized.

In addition to Oil and Gas Lease Fund amendments, the Fiscal Code contains several provisions for oil and gas operations:

- Eliminates the Jan. 1, 2018, expiration of language permitting the exploration of natural gas resources in the South Newark Basin. This permanent extension will allow further study of the basin for development. DEP is still prohibited from issuing well permits in the South Newark Basin until DCNR completes a study and legislation is enacted to permit the levying of an unconventional well fee.
- Establishes a general rule defining temporary cessation of an oil or gas well. If, before a lease is deemed to have expired, a landowner accepts a royalty payment or a company restarts production on a previously non-producing well, then the landowner waives the right to terminate the lease. The period of non-production is considered temporary.

The Administrative Code includes a number of sections impacting the environment in Pennsylvania, including for the Environmental Quality Board to adopt a new water quality standard for manganese. The intent of this section is to deem the water quality standard met when water is withdrawn from a stream, rather than when water is discharged into a stream.

Since 1989, Pennsylvania regulations have required water quality standards be met at the point of discharge. The practical implication of this change will be shifting the burden of compliance from those entities that may discharge manganese into streams (coal mines, as an example) to water suppliers. Water companies may now be required to increase water monitoring.

Act 40 also extends permits for water treatment facilities providing water disposal services to the conventional oil and gas industry, which would allow these facilities to operate under existing permits through Dec. 31, 2019, and would apply to National Pollutant Discharge and Elimination System, or NPDES, permits and DEP permits.

Act 40 also included language reauthorizing the $2 per ton recycling fee for municipal waste landfills and resource recovery facilities.

Transportation

The 2017/18 budget provides $6.1 billion in state funding for transportation personnel and operations. This is an increase of $56 million, or roughly 1 percent, over 2016/17.

The Fiscal Code permits PennDOT and the Commonwealth Financing Authority to waive any required local match from a municipality for financial assistance grants from the Multimodal Transportation Fund through the end of 2018. In addition, PennDOT is restricted from using money appropriated for direct mail inserts in its mailings.

Throughout the budget process, House Republicans attempted unsuccessfully on several occasions to use special public transportation funds to balance the General Fund. While the governor has authority under Fiscal Code amendments to transfer $300 million to the General Fund from special funds of his choice, we anticipate he will not target public transportation-related funds. However, House Republicans may continue to push for raiding these accounts, which could mean that businesses, local communities and commuters would pay a heavy price.

Criminal Justice

Corrections, Probation and Parole

For the first time in 16 years, the Department of Corrections is getting less in General Fund appropriations than it did in the prior year: $102.8 million, or 4.3 percent, less than in 2016/17. A 2017 prison closure that is projected to save $85 million, efficiency measures, complement controls, and assumed savings for a merger with the Pennsylvania Board of Probation and Parole are helping to reduce spending.

The Pennsylvania Board of Probation and Parole is level funded.

The proposed merger of the Department of Corrections with the board has not moved forward – either through the Senate-adopted SB522 and SB523, or through the Administrative Code (Act 40) – even though appropriations for the department and board were changed in anticipation of a merger. However, the Fiscal Code partially undid those changes to enable the two entities to continue separate operations.

The table below reflects the 2017/18 enacted budget and available year with appropriations separated between DOC and PBPP.

General Fund Appropriations *(Amounts in Millions)*	**2016/17**	**2017/18**	**$ Change**	**% Change**
DOC	$ 2,387	$ 2,285	$ (103)	-4.3%
PBPP	$ 176	$ 175	$ (1)	-0.6%
Total	$ 2,564	$ 2,460	$ (104)	-4.0%

Although the two entities are not legislatively merged, the administration moved forward Oct. 19 with a memorandum of understanding to **consolidate** their administrative functions wherever possible and to bring all re-entry services (which is largely parole field supervision) and community corrections (currently part of DOC) under **one organizational structure** that reports to the secretary of Corrections. HACD analysis of the consolidation plan will come later.

Corrections' budget is also less than 2016/17 due to the elimination of the fifth and final transfer of Justice Reinvestment savings into the Justice Reinvestment Fund. JRI produced $45.1 million in savings to DOC in 2016/17, of which 25 percent or $11.3 million would have been transferred into the fund in 2017/18. The Fiscal Code waives the requirement to make this transfer.

Pennsylvania Commission on Crime and Delinquency

The budget increases the appropriation to PCCD for the governor's opioid initiative by $7 million. Of this, $5 million will provide naloxone kits to first responders. Other appropriations to PCCD for longstanding grant programs are level funded, except for a reduction for violence prevention programs, which was also reduced in 2016/17.

The General Appropriations Act and Fiscal Code omit the transfer of Justice Reinvestment Initiative savings into the Justice Reinvestment Fund in 2017/18, which also eliminates appropriations to PCCD from that fund for victim services and grants to counties.

State Police

The budget reduces support for state police from the General Fund by $4.7 million, or 1.8 percent, and reduces funding from the Motor License Fund by $23.4 million, or 2.9 percent. The appropriation from the Motor License Fund to state police complies with the Fiscal Code limit on transfers from the MLF to PSP for 2017/18.

The total funding reduction is possible, in part, because the commonwealth is anticipating revenue of up to $28 million through an increase in fees for criminal history record checks. State police increased these fees effective November 25, 2017. However, the delay in passage of budget related legislation enabling this change could mean a 42 percent, or $11.7 million, decrease in new fee revenue relative to earlier projections.

The 2017/18 budget provides for three new cadet classes to replace retirees.

The budget does not assume fee collections from municipalities using part- or full-time state police coverage in lieu of a local or regional police protection.

Other Areas

Agriculture

The Department of Agriculture's 2017/18 state General Fund budget of $144.1 million is $474,000, or 0.3 percent, more than 2016/17. Ag's budget includes $31.1 million for general government operations, bringing an extra $1.7 million to the department as compared with last year. Additionally, the various grant appropriations traditionally added back by the legislature (agricultural research, agricultural promotion, hardwoods promotion, and agriculture shows) received a roughly 10 percent increase across the board.

The Penn State Agriculture Extension is getting a $500,000, or 1 percent, increase in 2017/18, bringing its total appropriation to $52.3 million. Also, the University of Pennsylvania School of Veterinary Medicine is flat funded at $30.1 million for veterinary activities and $281,000 for the Center for Infectious Disease.

The Fiscal Code authorizes the transfer of $19.65 million from the PA Racehorse Development Fund to the Department of Agriculture for the Animal Health Commission, Pennsylvania Veterinary Laboratory System, Pennsylvania fairs, and a transfer to the State Farm Products Show Fund.

The Fiscal Code also authorizes the transfer of $10.06 million from the PA Racehorse Development Fund to the State Racing Fund to cover equine drug testing costs.

Pennsylvania Malt and Brewed Beverages Industry Promotion Board members will now be entitled to reimbursement by the Department of Agriculture for expenses incurred while performing their duties, as per Fiscal Code language.

In addition, the Fiscal Code directs at least $250,000 from general government operations within Agriculture for the creation of the Commission of Agricultural Education Excellence, which will be tasked with developing and implementing agricultural education programming.

Community and Economic Development

The 2017/18 budget provides several targeted funding increases to specific Department of Community and Economic Development programs and initiatives. These increases are, generally, offset by modest reductions in other less-used program areas within DCED.

The enacted budget includes $12 million for DCED to fund a new initiative – Manufacturing PA – that builds upon existing resources and introduces new programs to recognize and support manufacturers across the commonwealth:

- Pennsylvania Manufacturing Training-to-Career Grants will be offered to Pennsylvania manufacturers who partner with educational institutions to share resource capital in creating and implementing workforce development programs;
- Pennsylvania Manufacturing Innovation Program grants will support greater cooperation between Pennsylvania manufacturers and state higher education institutions specializing in science and engineering; it will also include a fellowship program to link students with industry careers; and
- The industrial resource centers' role will expand in communicating with individual manufacturing partners, alongside a new "Made in PA" program to highlight goods produced in Pennsylvania.

The budget also includes a significant $6 million, or 200 percent, increase for local municipal emergency relief. This program provides grants to local communities for their recovery and rebuilding efforts following a natural or man-made disaster that does not qualify for federal assistance.

While most of DCED's funding decreases affect underutilized programs, the "Pennsylvania First" appropriation suffered a significant reduction of $5 million, or 25 percent. This appropriation contains the popular WEDNetPA job training program, which offers specialized training services for companies across the state; however, we do not know whether this program will be affected by the cut to the appropriation.

Labor and Industry

The General Assembly significantly changed the funding mechanism for L&I's Bureau of Occupational and Industrial Safety, which conducts many critical inspections for public safety, including elevators, boilers, flammable liquids storage, liquefied petroleum gas, the Uniform Construction Code, and certification for lead and asbestos occupations.

The Administrative Code increased inspection and permit fees and created new expedited permits for faster service. The increased revenues from these activities above the 2016/17 baseline will go to the bureau to fund its operations. This shift allowed the General Assembly to reduce the bureau's General Fund appropriation by about $7.5 million, or 60 percent.

Another notable change is the move of two longstanding allocations for blindness services from the department's vocational rehabilitation appropriation to a new appropriation under the Department of Human Services. The resources will continue to be allocated to Pennsylvania Association for the Blind and Associated Services for the Blind and Visually Impaired, through the separate appropriation.

Elsewhere in the Labor and Industry budget, industry partnerships, the two assistive technology appropriations, Centers for Independent Living, New Choices/New Options are all level-funded. The department's general government operations appropriation was cut by 2.5 percent.

Pennsylvania Emergency Management Agency (PEMA)

The 2017/18 state General Fund budget provides $15.9 million for the Pennsylvania Emergency Management Agency (PEMA). This is $4 million, or 20 percent, less than 2016/17. A sharp decline in the appropriation for disaster relief is the primary cause of this overall budget reduction.

The disaster relief appropriation is getting $2.2 million in 2017/18, which is $4 million, or 65 percent, less than 2016/17. Gov. Wolf's budget proposal sought $5.2 million.