



GOVERNOR TOM WOLF

Executive Budget In Brief

2019-2020



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

February 5, 2019

To the People of Pennsylvania:

Four years ago, when I proposed my first commonwealth budget, the fiscal health of the state was in a dire place. Through responsible budgeting and targeted investments, we have made significant strides to a bright future and made our first deposit into the Rainy Day Fund in nearly a decade.

The 2019-20 Budget is focused on key investments into the commonwealth's most valuable resource – the people of Pennsylvania. A skilled, educated workforce will attract business and industry back to the state. To do this, we must break down barriers to employment, such as child care and job training, and create training programs that are dynamic and adaptable to changes in industry.

We must also recognize the importance of agriculture in our commonwealth. The initiatives proposed will provide funding and technical assistance to support the 21st century agricultural industry.

This budget provides a holistic approach to supporting Pennsylvania workers while balancing our continued commitment to our most vulnerable Pennsylvanians and growing our Rainy Day Fund.

I look forward to continuing to work with all members of the General Assembly to move our state forward.



Sincerely,

Tom Wolf



Commonwealth of Pennsylvania

2019-20

Budget in Brief

For a complete copy of the ***Governor's Executive Budget, Budget in Brief***
and additional budget information, visit our website:

www.budget.pa.gov

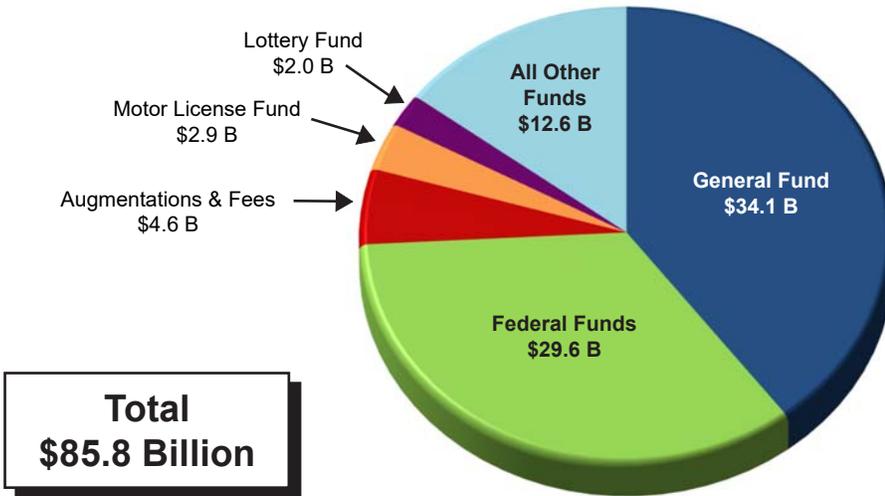
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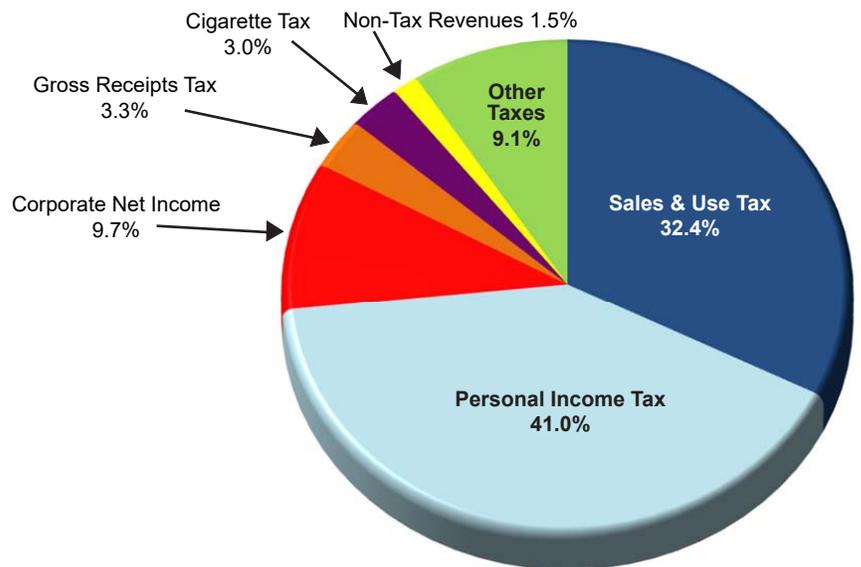
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Budget Overview

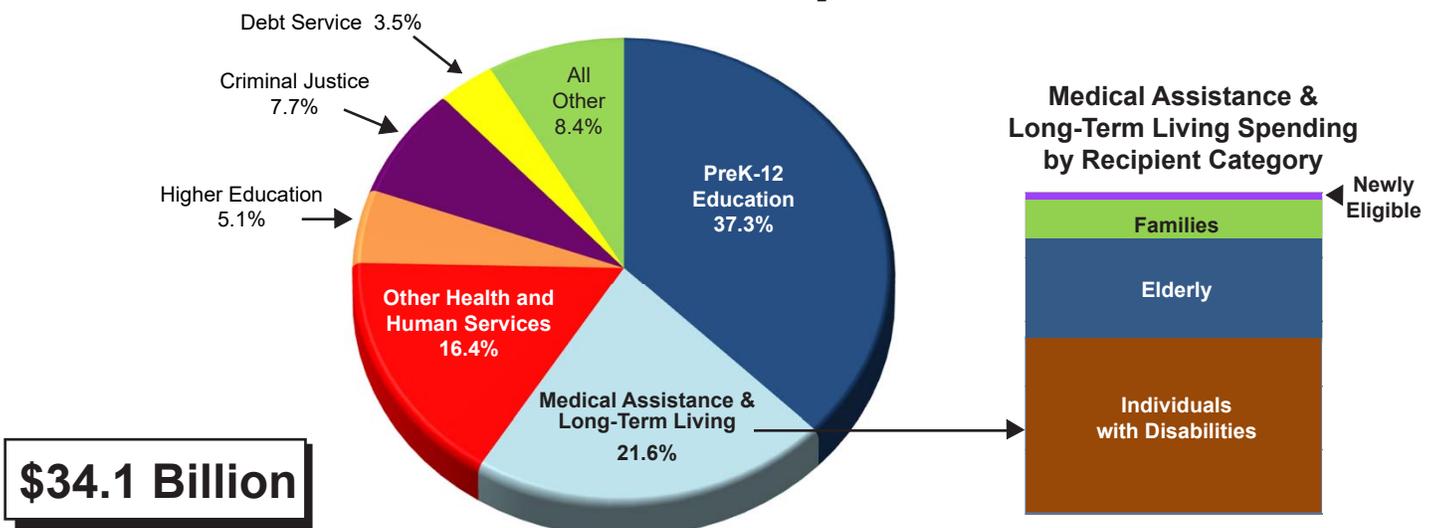
Total Operating Budget



General Fund Revenues



General Fund Expenditures



Budget Highlights

Over the last four years, responsible budgeting in Pennsylvania has allowed the financial condition of the commonwealth to go from a significant deficit to a surplus, resulting in the first deposit to the Rainy Day Fund in nearly a decade. During that same time, Pennsylvania created more than 200,000 new jobs – good jobs that support families. Pennsylvania also made historic investments in education at all levels and expanded workforce funding and programs.

However, there is much more that needs to be done to build on our healthy economy, create a strong education system for all Pennsylvania students, bring more family-sustaining wage jobs to the commonwealth, and address the skills gap for 21st century industry. The 2019-20 Budget makes critical investments in our current workforce and in our children so that we have a skilled workforce and strong economy in the future, the next phase of overhauling our workforce programs that builds on last year's PAsmart grants.

- The General Fund budget is \$34.146 billion, an increase of \$927.36 million, or 2.79 percent over the prior year
- Invests in workforce and education initiatives under the Statewide Workforce, Education, and Accountability Program (SWEAP)
- Increases opportunities for the agriculture industry
- Supports substance use disorder treatment, intellectual disabilities and autism services, and enhanced care for seniors
- Proposes a fair wage for all Pennsylvania workers
- The budget includes no broad-based tax increases

BUILDING THE NATION'S STRONGEST WORKFORCE

- Proposes business tax reforms to create a more competitive business tax climate, provide tax certainty, and maximize new business investment
- Creates the Keystone Economic Development and Workforce Command Center
- Modernizes compulsory school and dropout ages
- Provides additional training opportunities for teachers
- \$15 million for infants and toddlers on the waiting list into high-quality child care
- \$10 million to incentivize quality child care for infants and toddlers
- \$5 million for Parent Pathways
- \$5 million for expanding home visiting services
- Continues Governor Wolf's commitment to investing in education at all levels, including: \$200 million in Basic Education Funding, \$50 million in Special Education Funding, \$50 million for Pre-K Counts and Head Start, \$8 million for Stay in PA, \$10 million for PAsmart, and \$7 million for PASSHE

MAKING PENNSYLVANIA A BETTER PLACE FOR WORKERS AND BUSINESSES

- Increase the minimum wage to \$12 per hour on July 1, 2019, with annual increases to \$15 per hour by July 1, 2025
- Builds on the PA Business One-Stop Shop
- Reduces the Corporate Net Income Tax
- \$12 million to the Employer Skills Fund to develop innovative solutions to the skills gap
- \$5 million to PA First for job creation

SECURING THE FUTURE OF PENNSYLVANIA'S AGRICULTURAL INDUSTRY

- \$2 million to establish the PA Agricultural Business Development Center
- \$3 million to expand the Resource Enhancement and Protection (REAP) tax credits
- \$2.6 million towards bolstering the state's organic industry

KEEPING PENNSYLVANIA SAFE

- Provides fair funding for local police coverage by the PA State Police through a sliding scale fee
- \$25 million for State Police infrastructure and radio purchases
- \$24.7 million to state agencies to comply with the new radio system

PROTECTING ELECTIONS AND RESTORING TRUST IN GOVERNMENT

- \$15 million to assist counties in paying for updated voting machines
- \$2 million to upgrade the Statewide Uniform Registry of Electors (SURE)
- Continues deposits into the Rainy Day Fund that are projected to reach more than \$278 million by 2024

PROTECTING THE MOST VULNERABLE

- \$15 million to serve an additional 765 individuals with intellectual disabilities and autism currently on the waiting list through the Community Living Waiver and 100 individuals through the Consolidated Waiver
- Includes funding for individuals transitioning out of special education programs to be covered as soon as they graduate
- \$6.8 million to provide a 3 percent rate increase to Infant/Toddler Early Intervention providers
- \$1.5 million for naloxone to continue to fight the opioid epidemic
- Final phase of implementation of Community HealthChoices on January 1, 2020

Introduction



Over the last four years, responsible budgeting in Pennsylvania has allowed the financial condition of the commonwealth to go from a significant deficit to a surplus, resulting in the first deposit to the Rainy Day Fund in nearly a decade. During that same time, Pennsylvania created more than 200,000 new jobs – good jobs that support families. Pennsylvania also made historic investments in education at all levels and expanded workforce funding and programs.

However, there is much more that needs to be done to build on our healthy economy, create a strong education system for all Pennsylvania students, bring more family-sustaining wage jobs to the commonwealth, and address the skills gap for 21st century industry. The 2019-20 Budget makes critical investments in our current workforce and in our children so that we have a skilled workforce and strong economy in the future, the next phase of overhauling our workforce programs that began last year with PAsmart grants.

The Statewide Workforce, Education, and Accountability Program (SWEAP) brings a holistic approach to addressing workforce issues in Pennsylvania. Through early child development, education, job training, grants, and coordinated initiatives to tackle workforce barriers, SWEAP will transform the way the commonwealth combats the skills gap. To succeed, we must create career pathways that give individuals the opportunity to gain the skills and education that will lead to career progression. One such initiative through the Department of Human Services will create a pathway for low-income parents. The Parents Pathways model coordinates education and training with social services so families can break down barriers to employment and move toward self-sufficiency.

Pennsylvania has had a long, proud history of agriculture. Over the years, major changes in the market, technology, and climate have transformed this industry. To support our farmers, the budget proposal invests in innovative approaches to agriculture. The PA Farm Bill will be a comprehensive plan to break down barriers to agriculture in Pennsylvania, support new and existing farmers, and identify best practices in the industry. Organic agriculture, urban farming, and high-priority crops such as hemp and

hardwoods are fast-growing markets and, with innovation and targeted investments, Pennsylvania can continue to be a leader in these industries.

The 2019-20 Budget also makes investments to protect the citizens of Pennsylvania and those who support our servicemembers. By imposing a modest fee on municipalities that elect not to have a local police force and rely only the Pennsylvania State Police for local enforcement, we can ensure fair funding to continue our commitment to the State Police. Additionally, the Military Family Education Program will allow National Guard servicemembers to earn a benefit that will pay for higher education credits for their family members.

Governor Wolf's Ready to Start Task Force convened in the winter of 2018 with a focus on improving health outcomes and strengthening the home environment for infants, toddlers, and their families as well as preparing infants and toddlers for future school success. Many recommendations from that task force are presented in this budget, including addressing the child care waiting list, encouraging use of higher quality child care facilities, and the expansion of home visiting programs.

In January 2018, Governor Wolf signed an emergency declaration to tackle the heroin and opioid epidemic to save lives and help individuals with substance use disorder get treatment. This budget continues key investments in treatment and prevention for substance use disorder as we continue this fight.

The 2019-20 Budget offers key investments in the future, while being responsible to taxpayers. Overall growth in the budget is held to 2.79 percent, while allowing for additional Rainy Day Fund transfers and meeting the needs of our changing commonwealth. This budget proposes no tax increases. Building upon the completed phase-out of the Capital Stock and Franchise Tax, further steps to reform our business tax structure would implement full combined reporting. These reforms eliminate the Delaware Loophole for multi-state corporations and lower the Corporate Net Income Tax rate to 5.99 percent by 2024 for all corporations doing business in Pennsylvania.

Building the Nation's Strongest Workforce

The successful PAsmart pilot program provided investments of \$20 million dollars for STEM and computer science programs and \$10 million for job training for industry partnership and apprenticeship programs. Now, we are ready to move forward with a plan to keep building the nation's strongest workforce.

This budget builds on this effort by introducing the Statewide Workforce, Education, and Accountability Program (SWEAP) to further strengthen the commonwealth's ability to respond to changing market forces, technology, and societal needs.

Pennsylvania's future economic growth is contingent on the strength of its workforce. We continue to hear stories of businesses that are unable to find workers for open jobs. To compete with our neighbors and across the globe, the skills of our workforce must match the jobs available. Too many workers are stuck in low-wage jobs due to lack of training and opportunities for advancement.

By eliminating barriers and breaking down silos in the public and private sectors, SWEAP will help to ensure that all Pennsylvanians have the opportunity to build their lives and careers in the commonwealth.

Our plan is to create an environment for Pennsylvanians to develop skills to meet the demands of industry and access family-sustaining wage jobs by overhauling how state government supports the workforce needs of our economy. Under one reliable umbrella, Governor Wolf believes that workforce development and career training programs can be more effective and responsive to the needs of current and future employers. As our economy continues to grow and transform, Pennsylvania needs a workforce development system that is innovative, flexible, and relevant.

The businesses and institutions driving Pennsylvania's economic comeback need state government to keep up. We can meet that challenge from early child development to post-secondary career training by strengthening and supporting all Pennsylvanians – our current and future workforce.

By focusing on workforce development and workforce support from birth to employment, we will provide a comprehensive approach to coordinating education, workforce and human services strategies.

WORKFORCE COMMAND CENTER

Tackling workforce barriers and gaps cannot be done in silos. While multiple approaches are needed to meet demands, coordination of programs is critical to removing duplication of effort, creating a responsive system, and improving outcomes.

As part of SWEAP, a command center will work to align workforce efforts across commonwealth agencies and partners to more effectively deliver services to all Pennsylvanians.

An Executive Order creating the Keystone Economic Development and Workforce Command Center will bring together multiple agencies and critical external partners to collectively and uniformly examine needs and direct resources to address Pennsylvania's workforce shortage. The command center will focus on cross-agency coordination, project management, and policy analysis while fostering a multi-faceted approach to brainstorming and innovation around issues such as the skills gap, critical worker shortages, and barriers to hiring. In addition, the command center will monitor and report out on the implementation and progress of each of the workforce programs detailed in the budget. The goal of which is to create more transparency, reduce duplication of efforts and resources, and track outcomes in removing barriers and creating opportunities for employers and workers throughout Pennsylvania.

EARLY CHILDHOOD DEVELOPMENT AND PARENT SUPPORT

Establishing Parent Pathways

Removing barriers to education empowers low-income parents to obtain the skills needed for family-sustaining jobs. The **\$5 million** Parent Pathways initiative will use a multigenerational, whole-family approach to provide wraparound support to parents pursuing college or other postsecondary training options. The five to seven pilot programs may include support for housing, child care, family programming, tutoring, college system navigation, and career counseling. The model brings together community partners and resources, allowing parents to get the education required for a good job, breaking the cycle of poverty.

Expanding Home Visiting

Evidence-based home-visiting programs support vulnerable pregnant women as well as at-risk infants and toddlers and their mothers. The 2019-20 Budget includes **\$5 million** in state funds to expand home-visiting services to 800 additional vulnerable families. Services will be provided by the models currently recognized by the United States Health Resources & Services Administration.

Expanding Access to High-Rated Child Care

Access to child care can impact a family's ability to work or go to school. Pennsylvania's Child Care Works program provides financial support for child care to families with income below 200 percent of the Federal Poverty Income Guideline. However, funding has not kept pace with the demand. By the end of 2018, 4,300 children, including 2,000

Building the Nation's Strongest Workforce (continued)

infants and toddlers, were on a waiting list. This budget uses **\$15 million** in federal funds to serve an additional 970 infants and toddlers slots in high-quality STAR 3 and 4 child care programs.

Incentivizing Better Outcomes for Child Care Programs

Keystone STARS, Pennsylvania's quality rating and improvement system for child care programs, is designed to encourage programs to grow into higher quality ratings. A **\$10 million** investment of federal funds for child care subsidy will provide a 28 percent increase for infant and toddler daily tiered add-ons for high-quality programs. The use of a tiered reimbursement model for Child Care Works provides higher add-on payments to child care providers as they increase their STARS rating. By balancing private-pay and subsidized children in child care settings, there will be greater equity and access to high-quality early learning for all of Pennsylvania's youngest children.

EARLY EDUCATION

Lowering the Compulsory Age of School Attendance

To bring Pennsylvania's compulsory school attendance age in line with other states, the 2019-20 Budget proposes to lower Pennsylvania's compulsory age of school attendance from the current requirement of 8 years to 6 years. This change will align with common practice and also help to ensure that children do not fall behind because they start attending school later than their peers. Regular attendance for all children can set them on a path for future success. In addition, working parents will have the comfort of knowing their child will have access to education at a critical time in their child's developmental years. It is estimated that this change will increase enrollment by more than 3,300 children between ages 6 and 7 statewide.

Mandating an Impact Study of Universal, Free, Full-Day Kindergarten

While lowering the compulsory school age to 6 is a critical first step to align Pennsylvania's requirements with current norms, there would still be an estimated 49,000 5-year-olds not currently enrolled in school. By mandating a study on the effectiveness and impacts of lowering Pennsylvania's compulsory age of school attendance further to 5, we will be able to quantify the long-term impacts of starting school at an earlier age and identify readiness and potential implementation challenges for school districts such as physical classroom limitations, staffing needs, and multiplier effects for Pennsylvania families and workforce. This study will provide valuable information, moving Pennsylvania toward the goal of providing universal access to free, full-day kindergarten for all children and families.

Increasing Funding for High-Quality Early Childhood Education

Children who participate in high-quality pre-k programs perform better in school, are more likely to graduate, and earn more throughout their lives compared to peers without access to early learning programs. Governor Wolf will make an additional **\$50 million** investment in early education. With \$115 million in funding increases secured over the past four years, this additional investment will more than double the funding for Pre-K Counts programs since 2014-15 and increase funding for Head Start Supplemental Assistance by 77 percent. The new funding will allow nearly 5,500 additional children to enroll in the state's high-quality early learning programs.

SUPPORTING PENNSYLVANIA'S TEACHERS

PA TeacherWORKS: Connecting Teachers with the Workplace

Ensuring teachers provide a curriculum that is aligned to workforce demands is vital. Through PA TeacherWORKS, the departments of Education and Labor & Industry will enhance initiatives that connect educators and school staff to workplace experiences within Pennsylvania businesses in order to appropriately align curriculum and career counseling for students.

By leveraging additional federal resources for current K-12 educators and staff, as well as future teachers enrolled in Pennsylvania colleges and universities, funding will support teacher placements into businesses to provide information and training on industry operations, skill demands, and entry-level requirements. In addition, future teachers at Pennsylvania higher education institutions will have the opportunity for a pre-service experience and receive a business-approved micro-credential. Businesses serve as a critical partner, providing valuable experiences to current and potential teachers that will shape the future of Pennsylvania's educator workforce.



Building the Nation's Strongest Workforce (continued)

Attracting and Retaining the Best Teachers for Our Kids

Providing competitive wages is essential to attracting and retaining qualified education professionals. Outdated legislation from the 1980s arbitrarily sets compensation for Pennsylvania teachers and other education professionals, including counselors and school nurses, at a minimum \$18,500 per year, or \$8.90 per hour assuming a 40-hour workweek. It is important, however, to recognize that most educators spend many hours out of the classroom preparing lesson plans and reviewing student assignments. The current statutory minimum salary fails teachers, students, and families. The 2019-20 Budget proposes to increase the minimum starting salary to \$45,000 per year to better align with competitive salaries and the increasing cost of living.

K-12, HIGHER EDUCATION, AND CAREER TRAINING

Building on the PAsmart Pilot Program

Pennsylvania needs to have a qualified workforce that meets the demands of competitive industry. This budget builds on the success of PAsmart.

Providing an additional **\$4 million** to increase Pennsylvania's Manufacturing to Career Training Grant will nearly double the commonwealth's investment and outcomes in this program. These grants allow companies to identify and train a skilled workforce while creating a workplace culture that promotes employee advancement, employer growth, and competitive advantage in a global economy.

Governor Wolf's goal is for 60 percent of Pennsylvania residents to have some form of post-secondary degree by 2025. To accomplish this goal, Pennsylvania's workers must have access to opportunities that allow them to develop their current skill set. An investment of **\$6 million** will be used to develop and expand adult career and technical education training programs that target workers and non-traditional students who have career readiness, basic education, or remedial needs. Emphasis will be placed on innovative training models that prioritize timely completion of the program, provide qualified career and technical education instructors, and incorporate industry-recognized credentials.

Raising the Dropout Age

Dropping out of school is a decision that could result in significant negative lifelong impacts. In 2016-17, more than 4,000 17-year-old students left school before graduating, setting them on a path that typically leads to lower annual income when compared to those with a high school diploma. By raising the compulsory school age requirements, Pennsylvania will be more in line with expectations for education and training levels in the 21st century. The budget plan proposes to raise Pennsylvania's minimum exit or dropout age for compulsory school attendance from the current requirement of 17 years old to 18 years old.

Providing Community College Tuition Assistance

An investment of **\$8 million** through PA Community College Tuition Assistance will target the middle-skills gap and create the Educate and Stay in PA Program. This program will award one-time grants of \$2,500 to individuals who are students of or have graduated from a Pennsylvania community college and are currently working in the state. This will assist in encouraging educated and skilled workers to stay and thrive in their communities.

Establishing the Military Family Education Program

While the Pennsylvania National Guard is keeping Pennsylvania safe, it is important that we support those who support our service members. The 2019-20 Budget includes **\$2.7 million** to establish a PA National Guard Military Family Education Program that will allow National Guard service members to earn higher education credit for their families. The benefit must be used for the cost of education at a Pennsylvania Higher Education Assistance Agency approved educational institution. This program will improve the education opportunities for Pennsylvania families who support National Guard service members that commit to answering the call of duty to support and defend the commonwealth and the nation.



Creating Early Childhood Career Pathways

The 2019-20 Budget invests **\$2 million** in federal funds toward education, training, and professional supports for an apprenticeship, or work-based learning ("earn while you learn"), model for professionals serving infants and toddlers in early child care and education programs. The funding is intended for skills improvement and career advancement. A competitive procurement will select six regional entities to support the Early Childhood Career Pathways. With guidance from the Department of Human Services, the Department of Education, and the Apprenticeship and Training Office, Early Childhood Professional Development Organizations will partner with higher education institutions to ensure that credit-bearing professional development supports a participant's movement to higher qualifications.

Building the Nation's Strongest Workforce (continued)

Continuing Investments in Education and Career Training

The 2019-20 Budget builds on prior-year increases to provide additional funding to improve education opportunities for every student across the state, regardless of zip code, and further ensure students are workforce-ready.

Throughout his first term, the governor worked with the General Assembly to provide sustained support, totaling more than \$1 billion in new education funding. Progress for all Pennsylvania schools to ensure students are college- and career-ready continues to be a priority in the 2019-20 fiscal year.

The new investments include:

- **\$200 million increase in Basic Education Funding.** This increase builds on \$633 million in basic education and Ready to Learn Block Grant funding increases over the past four fiscal years.
- **\$50 million increase in Special Education Funding.** This increase follows \$90 million in funding increases over the last four years. Of this total investment, \$300,000 will be used for Keystone Telepresence Education Grants to enable children

with serious illnesses or injuries to attend class via telepresence technologies. The grants will allow the state's Intermediate Units to purchase the telepresence equipment necessary to support homebound students.

- **\$7 million increase for the Pennsylvania State System of Higher Education.** This 1.5 percent increase allows the Pennsylvania State System of Higher Education, including its 14 state universities, to continue to focus on aligning its policy priorities and operations for student affordability and success.

ENSURING ACCOUNTABILITY

Being accountable for program outcomes is vital to ensuring effectiveness, being nimble, and ready to make necessary adjustments to achieve the best results.

Across our workforce and education system, we will develop a transparent performance evaluation system by establishing a cross-agency and multi-sector public-facing interactive data dashboard to inform priorities, program efforts and decision-making around the investments to help families, students, workers, and employers. All involved partners will have access to data and information on public education and workforce system trends, activities, and outcomes.



Making Pennsylvania a Better Place for Workers and Businesses

Increasing the Minimum Wage

Governor Wolf is proposing to increase the minimum wage to \$12 per hour for all Pennsylvania workers on July 1, 2019. Thirty-two states and territories, including all neighboring states, now have higher minimum wage levels than Pennsylvania. The minimum wage in Pennsylvania was last raised more than 10 years ago. In the meantime, the cost of living for Pennsylvanians has continued to rise, reducing the purchasing power of minimum-wage workers. Building on investments made throughout this budget, increasing the minimum wage would level the playing field and end wage stagnation for the very individuals who provide critical early childhood and social services to Pennsylvanians in need.

Employees who are paid a family-sustaining wage are more invested in their employers and more productive when they are not worried about making ends meet. This budget proposes to increase the minimum wage to \$12 per hour effective July 1, 2019, with \$0.50 increases annually until the minimum wage reaches \$15 per hour on July 1, 2025.

Pennsylvania workers earning the minimum wage must have the ability to afford basic family-sustaining necessities – housing, groceries, transportation, and child care – that enable them to avoid poverty, be productive workers, and reduce the use of public benefits. In fact, a \$12-per-hour minimum wage will save the commonwealth \$36 million in General Fund dollars in the 2019-20 Budget even after accounting for increased wages for direct care and child care workers. These savings will increase to nearly \$120 million in the 2020-21 fiscal year.

Increasing Investments in Job Creation

The 2019-20 Budget provides an additional **\$5 million** for PA First through the Department of Community and Economic Development. A primary tool for the Governor's Action Team, PA First is a comprehensive program that offers grants for job creation and retention, infrastructure projects, and workforce development. This additional funding will provide the commonwealth the flexibility to rapidly respond to companies' needs, including workforce training opportunities for a company's existing workers, which will increase investment in the state and enable Pennsylvania to compete more effectively with other states.

Creating a More Competitive Business Tax Climate

The 2019-20 Budget proposes business tax reforms to create a more competitive business tax climate, provide tax certainty, promote fairness for all corporations doing business in the commonwealth, and maximize new business investment. Specifically, the budget assumes the adoption of full combined reporting effective January 1, 2020, in conjunction with Corporate Net Income Tax (CNIT) rate reductions. Annual rate reductions would lower the CNIT rate to 5.99 percent by 2024.



Building a Business One-Stop Shop

Codified into statute in 2018, the PA Business One-Stop Shop makes it simple for businesses to start and expand in Pennsylvania, spurring economic growth and job creation. It serves as the sole state source to guide aspiring entrepreneurs and established businesses through all stages of development, including planning, registering, operating, and growing a business. Services and resources are available through a website, toll-free number, and a dedicated program office housed in the Department of Community and Economic Development in close partnership with the departments of State, Revenue, Labor & Industry, and the Office of Administration.

Investing in Innovation with the Employer Skills Fund

No one knows workforce needs better than those who demand the hiring. By providing **\$12 million** for an estimated \$1 to \$2 million competitive grants for Pennsylvania employers, businesses will be empowered to develop innovative solutions to address employability skills gaps, increase recruitment return on investment, and reduce onboarding costs. This public-private partnership, spearheaded through Team PA in partnership with the Department of Community and Economic Development, will give employers the opportunity to collaborate and provide information on their most pressing needs in addressing the skills gap. In turn, the administration will provide financial support for implementation of innovative solutions. These investments will be evaluated for their effectiveness, both for workers and employers, with the goal of informing policy in this space for years to come.

Securing the Future of Pennsylvania's Agricultural Industry

Pennsylvania has a long, proud history of agriculture. As the industry changes, so must the way we support our farmers and agriculture businesses. Through the PA Farm Bill, a comprehensive package of funding opportunities and resources will be made available to expand this important industry.

Developing New Resources for Agriculture Business Development and Succession Planning

Because thoughtful planning is critical to the sustainability of farms, the 2019-20 Budget proposes **\$2 million** to establish the Pennsylvania Agricultural Business Development Center. The newly created center, incorporating the Center for Farm Transitions and the Preserved Farm Resource Center into one entity, will be a resource for farmers to create business, transition, or succession plans to give them the best probability of success.

Creating More Processing Capabilities

This budget assumes the continuation of funding for the **\$5 million** Pennsylvania Dairy Investment Program that was established in 2018 through the Commonwealth Financing Authority. The proposal also includes **\$1.5 million** to assist poultry, swine, sheep, lamb, goat, and rabbit agriculture, while helping to reduce barriers for small animal agriculture operations or small craft butcher shops.

Removing Regulatory Burdens and Strengthening the State's Agricultural Business Climate

The 2019-20 Budget proposes **\$6 million**, including expanding REAP tax credits by \$3 million, to continue

reducing regulatory burdens on farmers and incentivizing best practices to allow farmers to be more competitive while incorporating high-quality conservation practices.

Increasing Opportunities for Pennsylvania's Agricultural Workforce

There will be nearly 75,000 job vacancies in the agriculture and food industries over the next 10 years. This budget provides **\$1 million** to increase awareness of and exposure to agriculture.

Rebuilding and Expanding Agricultural Infrastructure

An ongoing need for disaster response readiness has been evident most recently with the threats of spotted lanternfly infestation and highly pathogenic avian influenza. The 2019-20 Budget proposes **\$5 million** to allow for a quick response to agricultural disasters.

Making Pennsylvania the Nation's Leading Organic State

The 2019-20 Budget proposes a **\$2.6 million** increase to bolster Pennsylvania's status as a leader in food and agriculture and further enhances the growth of the organic industry by developing a comprehensive outreach program and creating state-specific guidelines and standards for marketing Pennsylvania's products to a global marketplace. This budget also includes **\$1 million** to continue to support the work of urban agriculture collaboratives and growing industries like hemp, hops, and hardwoods.



Keeping Pennsylvania Safe



Providing Fair Funding for Local Police Coverage

Across the commonwealth, 67 percent of municipalities rely on the State Police to provide local police support. This coverage comes at no cost to the municipality and is borne by taxpayers statewide, who support their own local police coverage through local taxes. For the State Police, this has put a strain on their ability to respond in these areas, as they assume significant additional responsibility.

To address this inequity, the 2019-20 Budget assesses a fee for every person residing in a municipality without local

police coverage to pay for the additional burden placed on the State Police to provide full coverage for the municipality. The amount of the fee is on a sliding scale based on municipality size.

A total of three State Police cadet classes will be completed during the current fiscal year. The fee proposal allows three additional cadet classes to begin in 2019-20, increasing enlisted filled complement levels by more than 100 troopers when considering traditional retirement and turnover.

Upgrading the Statewide Radio System

A statewide radio system that provides reliable communication among public safety agencies is critical to ensuring a rapid and effective response to emergencies throughout the commonwealth. The State Police budget includes nearly \$25 million for infrastructure and radio purchases to continue the multi-year transition of the Pennsylvania Statewide Radio Network (PA-STARNet) to an Association of Public Safety Communications Officials (APCO) Project 25 (P25) compliant system.

PA-STARNet is used by 22 commonwealth agencies, both chambers of the legislature, business partners, and other external organizations, including county and municipal agencies serving dispatch and mobile voice and data communications for public safety and emergency response. In addition to the funding provided for infrastructure and State Police radio purchases, the 2019-20 Budget includes **\$24.7 million** across multiple funds and agency budgets for radio replacement, in close coordination with the State Police Radio Office, to comply with the new P25 system.



Protecting Elections and Restoring Trust in Government

Modernizing Elections

To protect the integrity of our elections by ensuring that every vote cast can be verified by a physical record at each machine, new and more reliable voting machines are needed. The Department of State is working closely with county boards of elections to help them purchase new machines that will meet updated and modernized security and accessibility standards. To help offset the cost, the 2019-20 Budget proposes **\$15 million** to begin to pay for a portion of the cost that will be incurred by the counties to get these new systems in operation.



The budget also includes **\$2 million** to upgrade the Statewide Uniform Registry of Electors (SURE) system. Moving away from a completely custom-built application will enable the Department of State to have increased data management and reporting capabilities, cost containment, and flexibility to expand when necessary.

Saving for a Rainy Day

The 2017-18 Budget eliminated more than \$2 billion in costs by reducing the state's workforce to the lowest level in decades, downsizing facilities, and merging human resources and information technology services across all agencies. These steps, coupled with an emphasis on efficient operations across all agencies, allowed the first deposit into the state's Rainy Day Fund in nearly a decade. The \$22 million transfer is a strong sign of fiscal responsibility, which can also result in higher bond ratings.

Continued focus on efficiencies, including employing the continuous process improvement practices of Lean management, allows the commonwealth to maintain fiscal stability and enables further planned transfers into the Rainy Day Fund resulting in a projected balance of more than \$278 million by 2024.

Protecting the Most Vulnerable

Ensuring the Best Care for Those with Intellectual Disabilities

The 2019-20 Budget includes a **\$15 million** initiative to increase services for individuals with intellectual disabilities and autism. This investment allows 765 individuals on the emergency waiting list with no services to receive services through the Community Living Waiver and provides community services to 100 people with unanticipated emergencies through the Consolidated Waiver

The Community Living Waiver is a cost-effective and high-quality alternative to serve those able to live at home and protect resources for those who must receive services in a residential setting. Investing in both the Community Living Waiver and the Consolidated Waiver will allow counties to meet the growing needs of existing participants and provide support for high school graduates.

Increasing Early Intervention Rates

Early Intervention services are a key to meeting the developmental needs of children with disabilities. The 2019-20 Budget provides adequate rates to Infant/Toddler Early Intervention providers to recruit and retain qualified staff members to serve the at-risk children and families in the Early Intervention system. A **\$5 million** state investment will leverage an additional **\$1.8 million** in federal funds to allow

for a 3 percent rate increase. This initiative will help providers hire and retain qualified staff in order to continue providing quality services to vulnerable children and their families.

Continuing to Fight the Opioid Epidemic

The administration continues to work to provide real solutions to the opioid epidemic to save lives and help individuals with substance use disorder and their families get the treatment they need to live long, productive lives. To that end, Pennsylvania has taken a coordinated and innovative approach to address the epidemic, requiring the time and attention of all state agencies in some capacity. Because of the success of its Opioid Command Center, Pennsylvania has been hailed as a model in the fight against the opioid epidemic by the American Medical Association.

However, as overdose numbers continue to rise, it is clear much more must be done.

The 2019-20 Budget continues to place a significant emphasis on ensuring that individuals suffering from substance use disorder have access to meaningful treatment and can recover. This includes an additional **\$1.5 million** for naloxone. Proposed strategies will balance a coordinated approach from state agencies with data and historical experience to deploy resources effectively and efficiently.

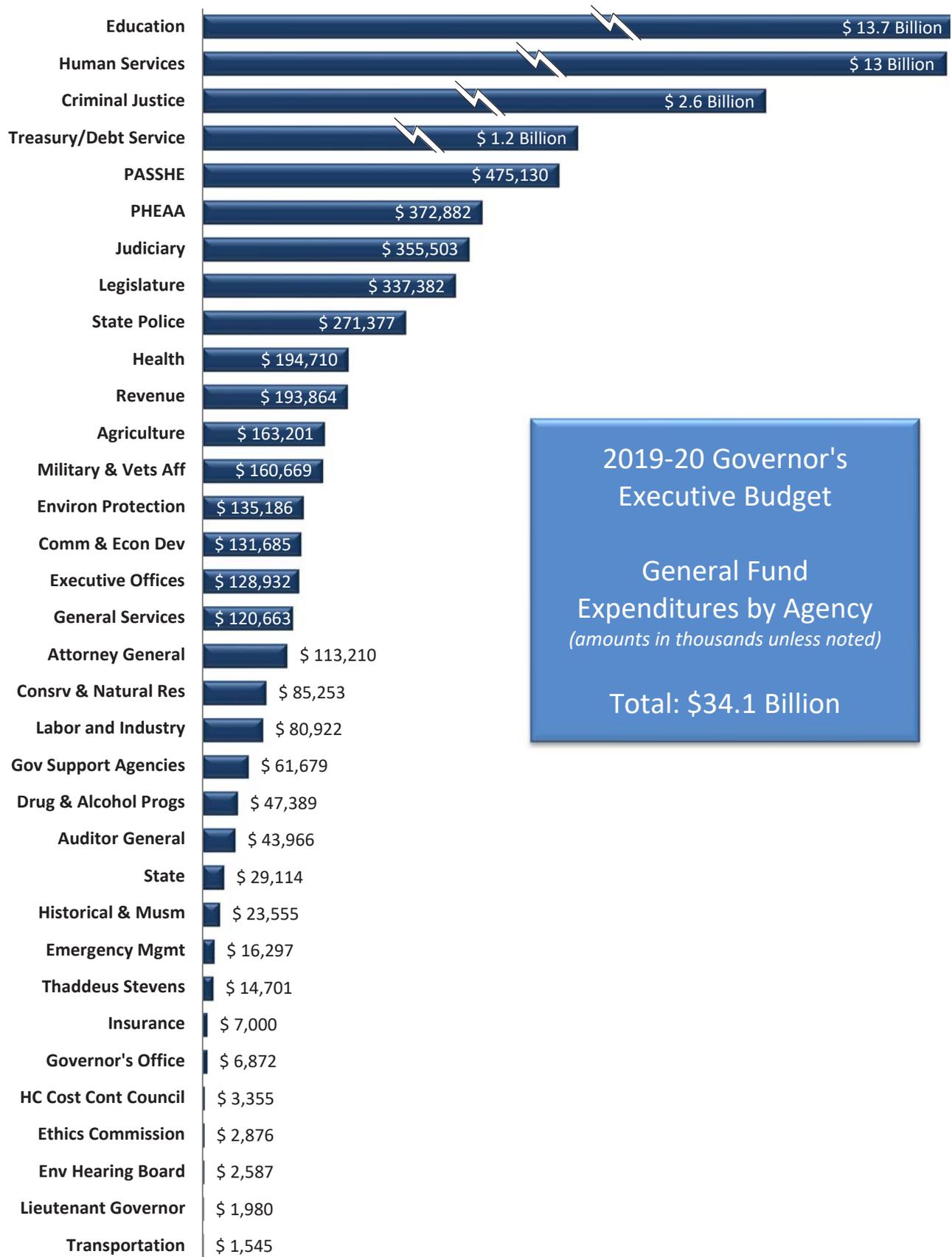
General Fund Financial Statement

	Dollars in Millions		
	2017-18 Actual	2018-19 Available	2019-20 Budget
Beginning Balance.....	\$ -1,539	\$ 22	\$ 3
Adjustment to Beginning Balance.....	15	-56
Revenues:			
Receipts.....	\$ 34,567	\$ 34,400	\$ 35,296
Less Refunds.....	-1,339	-1,341	-1,343
Prior Year Lapses.....	289	200	200
Funds Available	\$ 31,993	\$ 33,226	\$ 34,156
Expenditures:			
Total Appropriations.....	\$ 31,948	\$ 32,724	\$ 34,146
Supplemental Appropriations.....	495
Total State Expenditures.....	\$ 31,948	\$ 33,219	\$ 34,146
Preliminary Balance.....	45	6	10
Transfer to Rainy Day Fund	-23	-3	-5
Ending Balance	<u>\$ 22</u>	<u>\$ 3</u>	<u>\$ 5</u>

General Fund Revenue Sources

Source	Dollars in Millions		
	2017-18 Actual	2018-19 Estimated	2019-20 Estimated
Personal Income Tax	\$ 13,399.0	\$ 13,855.1	\$ 14,443.0
Sales and Use Tax	10,381.4	11,102.5	11,447.1
Corporate Net Income Tax	2,879.5	3,342.5	3,423.3
Gross Receipts Tax	1,149.9	1,117.1	1,177.1
Cigarette Tax	1,198.3	1,119.0	1,064.9
Other Taxes	2,994.3	3,076.1	3,215.7
Non-Tax Revenues	2,563.5	727.4	525.2
Total Receipts	\$ 34,566.9	\$ 34,399.7	\$ 35,296.3
Difference from prior year	2,897.9	-167.2	896.6
Percentage difference	9.2%	-0.5%	2.6%

General Fund Expenditures by Agency



Motor License Fund

INCOME

(Dollars in Millions)



Liquid Fuels Tax – \$1,832

Licenses and Fees – \$1,012

Other – \$22

Total Income	\$2,866
Beginning Balance....	0
TOTAL	\$2,866

OUTGO

(Dollars in Millions)



Highways & Bridges – \$1,327

State Police – \$738

Local Subsidy – \$304

Other – \$218

Licensing & Safety – \$215

Debt Service – \$53

Total Outgo	\$2,855
Ending Balance	11
TOTAL	\$2,866



Economic Outlook

The Forecast

Slowing global growth, a strong dollar, fading fiscal stimulus, tightening monetary policy, weaker stock prices, the effects of recent tariffs, and the approach to capacity constraints point to a material slowing in the pace of U.S. growth in 2019. In addition, the Federal Reserve is expected to continue to gradually raise the federal funds rate and slowly shrink its balance sheets. This translates to two more federal rate hikes in 2019 and one more in 2020.

Table 1

Forecast Change in Key US Economic Indicators Annual Percentage Growth*				
Indicator	2017	2018p	2019p	2020p
Nominal GDP	4.2	5.2	4.7	4.4
Real GDP	2.2	2.9	2.5	2.0
Total Consumption	2.5	2.7	2.6	2.3
Corporate Profits (After Tax)	5.4	6.7	4.8	3.6
Unemployment Rate (Rate)	4.4	3.9	3.6	3.7
CPI	2.1	2.4	2.0	2.5
Federal Funds (Rate)	1.00	1.83	2.61	3.03

* Assumptions in this chart, as well as other assumptions, are incorporated in the 2019-20 fiscal year revenue estimates.
p = projected

Table 1 and Table 2 are U.S. macro forecast projections from IHS Markit. Table 1 outlines the expected outlook for lower unemployment and a decrease in GDP in 2019. Table 2 notes that over the next two years there is a 60% probability of robust GDP growth, with an increase in consumer spending and business fixed investment. Table 2 also provides narrative for each economic indicator.

Pennsylvania Outlook

Pennsylvania benefits from a highly diversified economy with a mix of industries. No single employment sector dominates Pennsylvania. Since the turbulent diversification of the Pennsylvania economy during the 1970's and 1980's, Pennsylvania has a much more stable economy which tends to track the national economy but with less volatility. During periods of national economic contraction, Pennsylvania often will outperform the U.S. in areas such as growth in real gross state product, growth in real personal income and employment growth. Pennsylvania's unemployment rate generally trends below the U.S. rate and per capita income levels in the Commonwealth exceed national levels. However, during periods of economic expansion, Pennsylvania will often lag behind the rate of growth in the national economy.

The Marcellus shale natural gas deposit is a long-term asset for the state and region, although drilling activity has slowed due to low prices for natural gas. The buildout of infrastructure to transport the gas to market continues, with construction of pipelines, compressing stations and

Table 2

U.S. Macro Forecast Projections from IHS Markit January 2019

Baseline Forecast (60% Probability)	
GDP Growth	Robust growth, 3.1% in 2018 and 2.1% in 2019
Consumer Spending	A key driver of growth, up 2.8% in 2018 and 2.2% in 2019
Business Fixed Investment	Growth to peak at 6.9% in 2018 due to pick-up in nonfarm business-sector output and then 3.3% in 2019
Housing	Gradual improvement, with 1.4 million starts by late 2020
Exports	Rise 2.7% in 2018 and 6.0% in 2019
Fiscal Policy	Personal tax cuts extended, while entitlement spending will follow current program guidelines
Monetary Policy	Federal Reserve hikes the federal funds rate twice in 2019 and once in 2020, bringing the upper end of the target range to 3.25%
Credit Conditions	Gradually easing
Consumer Confidence	Peaks in the fourth-quarter of 2018 and trends modestly downward throughout the rest of the forecast period
Oil Prices (Dollars/barrel)	Brent crude oil averages \$65 in 2019 and \$68 in 2020
Stock Markets	The S&P rises 15.3% in 2019 (Dec. 31 to Dec. 31) and 0.6% in 2020
Inflation (CPI)	Core Personal Consumption Expenditures Price (PCE) inflation firms to 1.8% in 2018, 2.0% in 2019 and 2.2% in 2020
Foreign Growth	In 2019, Eurozone growth cools to 1.5%, while China's growth eases to 6.3%
U.S. Dollar	The real dollar peaks in the first-quarter of 2019 and then depreciates

Economic Outlook (continued)

processing facilities continuing to benefit Pennsylvania. The buildout of pipeline infrastructure needed to move the state's natural gas production to market is continuing, both within Pennsylvania and outside of the state. Pipeline construction is boosting payrolls in the construction and metals manufacturing sectors, among others.

Portions of the state, especially the Pittsburgh area, have become magnets for high-tech jobs such as software development. Pittsburgh has continued to build on its reputation as one of the nations leading cities for startup businesses. The city has acquired regional offices for major tech companies such as Google, Apple and Uber. Other industries such as manufacturing of medical instruments also continue to show growth. A recently announced partnership between Pittsburgh and Cleveland in the field aims to boost the high-tech fortunes of both cities.

In the Southeast part of the state GlaxoSmithKline will be consolidating its drug research operations into two facilities, including one in Collegeville, Montgomery County. The company is investing \$250 million in new "smart labs" at the site, which is currently home to about 1,600 jobs.

The education and healthcare sectors remain a vital part of the state economy. The healthcare sector expects to benefit from increased demand building upon expanded insurance coverage already provided through the Affordable Care Act. Pennsylvania also boasts many top-flight research

hospitals that draw patients from outside the state. The state's education providers, especially its notable research universities, not only provide jobs on campus but also help to nurture new businesses with the graduates they produce.

Projected steady growth in state revenues also point toward a favorable economic outlook for Pennsylvania. The Independent Fiscal Office reported in November 2018 that PIT growth is projected to outpace GDP growth, assuming the absence of a recession. In addition, the CNIT is projected to expand at roughly the same rate as the state economy through FY 2023-24. The Tax Cuts and Jobs Act (TCJA) expands the federal tax base, from which Pennsylvania CNIT is calculated, and effectively provides a boost to state tax revenues. From the recovery through the current fiscal year, CNIT revenues outpaced Pennsylvania GDP.

Pennsylvania is expected to add jobs at an annual average rate of 0.6% over the next five years. The healthcare sector remains the most reliable source of new jobs and investments in the state, while the construction sector pitched in with some long-awaited gains due to increased activity in residential and commercial development, as well as infrastructure rebuilding. Overall employment growth in Pennsylvania is expected to be 1.4% for 2018. The state's unemployment rate will drop to the mid-4% range.

Table 3 shows various historical and projected key economic indicators for Pennsylvania and the U.S. economy.

Table 3

Key Economic Indicators for Pennsylvania and the United States

PENNSYLVANIA: Key Economic Indicators	2017	2018	2019	2020	2021	2022
Real Gross State Product (in millions, 2012 dollars)	700,783	715,586	730,604	742,733	752,026	761,059
Real Gross State Product (percentage change)	2.2%	2.1%	2.1%	1.7%	1.3%	1.2%
Total Employment (in thousands)	5,948.0	6,027.0	6,094.6	6,135.9	6,145.6	6,153.0
Total Employment (percentage change)	1.1%	1.3%	1.1%	0.7%	0.2%	0.1%
Manufacturing Employment (in thousands)	561.3	566.6	573.2	575.0	576.2	563.8
Nonmanufacturing Employment (in thousands.)	5,386.7	5,460.5	5,521.3	5,560.9	5,578.4	5,589.2
Population (in thousands)	12,808.5	12,824.8	12,835.8	12,849.3	12,865.0	12,882.2
Population (percentage change)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Unemployment Rate (percentage)	4.9%	4.4%	3.8%	3.7%	3.9%	4.0%
Personal Income (percentage change)	3.9%	3.8%	4.1%	4.0%	3.7%	3.6%
U.S. ECONOMY						
Real Gross Domestic Product (percentage change)	2.0%	2.7%	2.6%	2.1%	1.7%	1.7%
Employment (percentage change)	1.4%	1.7%	1.5%	1.1%	0.6%	0.7%

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