

Commonwealth of Pennsylvania
2015-16 Executive Budget

Randy Albright
Secretary of the Budget

March 3, 2015



2015-16 Budget Highlights

Overview

This budget rebuilds the middle class by investing in education to prepare students and workers for good-paying, 21st-century jobs, ensures government uses taxpayer dollars effectively and efficiently, cuts corporate taxes and improves our business climate, significantly reduces school district property taxes, and decreases the government's overall tax burden on hard-working, middle-class homeowners.

Jobs that Pay
Schools that Teach
Government that Works



2015-16 Budget Highlights

Overview

Jobs that Pay

- Reduce School District Property Taxes
- Fix our Business Tax Climate
- Fund an Economic Growth Plan
- Reshape our Education and Workforce Development Systems

Schools that Teach

- Restore Education Cuts
- Enact New Basic Education Formula
- Reform Cyber Charter Payment
- Strengthen Accountability for Student Performance and Taxpayer Investment

Government that Works

- Rebuild Public Trust in Government
- Make Government More Efficient
- Improve Access to Affordable Healthcare
- Responsibly Meet our Pension Obligations
- Improve Public Safety Programs



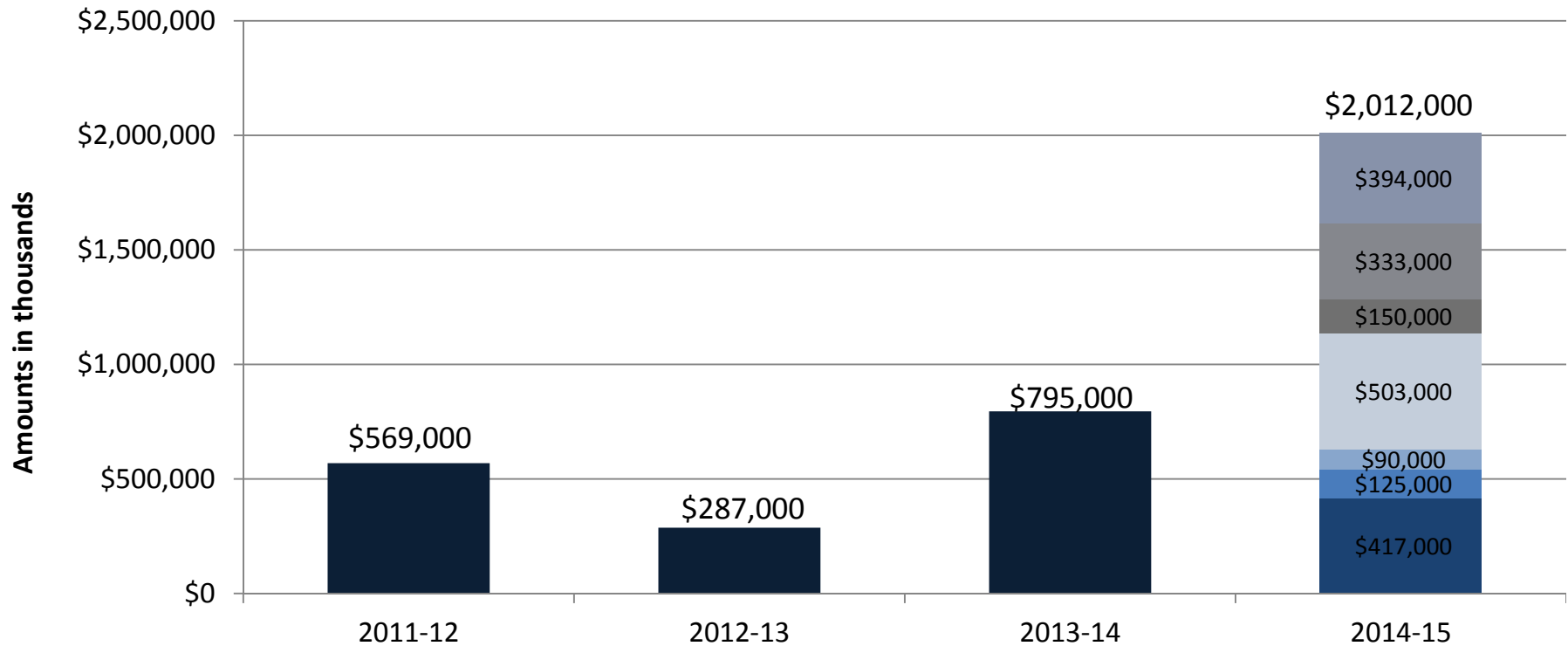
Our Challenge

- Pennsylvania Faces Three Deficits
 - **Permanently Fix a Structural Budget Deficit:** Take steps to improve our long-term fiscal health and restore our bond rating
 - **Repair an Education Deficit:** Restore education cuts, establish predictable education funding, and refocus workforce systems
 - **Eliminate a Jobs Deficit:** Fix our business tax climate and reinvest in economic development programs that leverage private dollars and create quality jobs



Structural Budget Deficit

One-Time Revenues Used to Balance 2014-15 Budget



- Extraordinary Lapses
- Tax Refund Reduction
- Escheats
- Payment Delays

- Gaming Licenses
- Shifting Costs to Non-Recurring Sources
- Transfer from Special Funds



Structural Budget Deficit

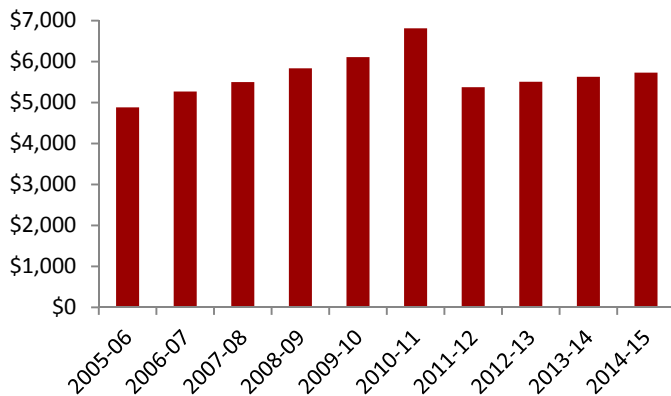
- Mandated spending growth of more than \$1.6 billion
 - \$900 million in Department of Human Services
 - \$200 million in Department of Corrections
 - \$500 million in Pension Costs
- Expiration of public employee contracts in June 2015
- Addressing other long-term obligations, such as post-employment benefits



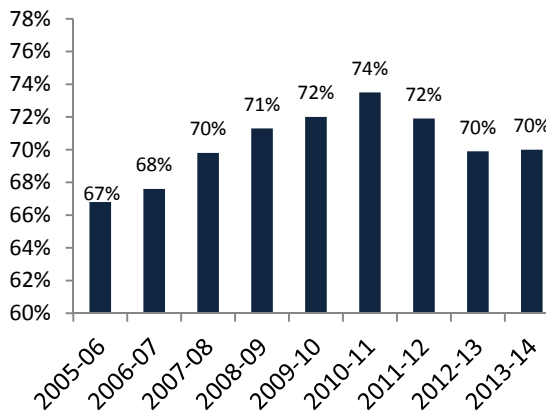
Education Deficit

- More than 23,000 education jobs lost through 2012
- 93% of Pennsylvania school districts reported staff reductions in the last five years
- 91% of districts raised property taxes
- Steady improvements in student test scores reversed

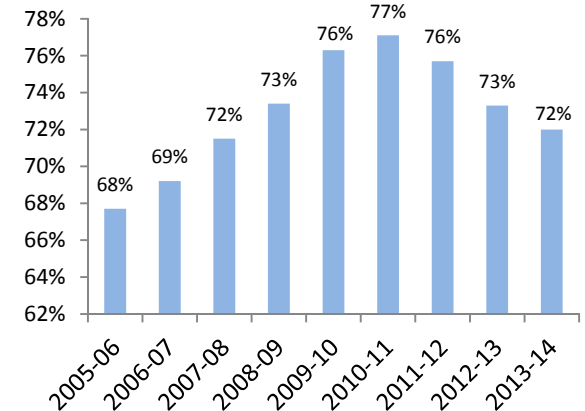
Education Classroom Funding
(in millions)



PSSA Results:
Advanced/Proficient Reading



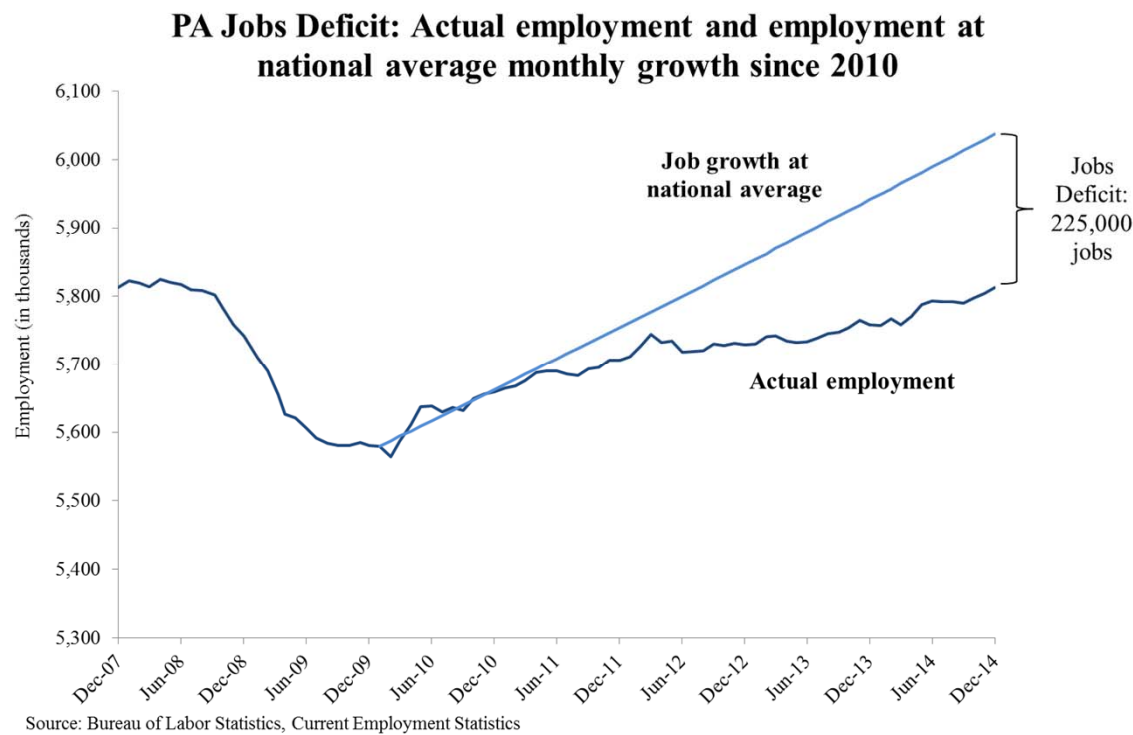
PSSA Results:
Advanced/Proficient Math



Source: Pennsylvania Department of Education

Jobs Deficit

- Pennsylvania went from one of the top 10 states in job growth in 2010 to 50th in December 2014
- Had state job growth matched the national monthly average over the past four years, Pennsylvania would have an additional 225,000 jobs

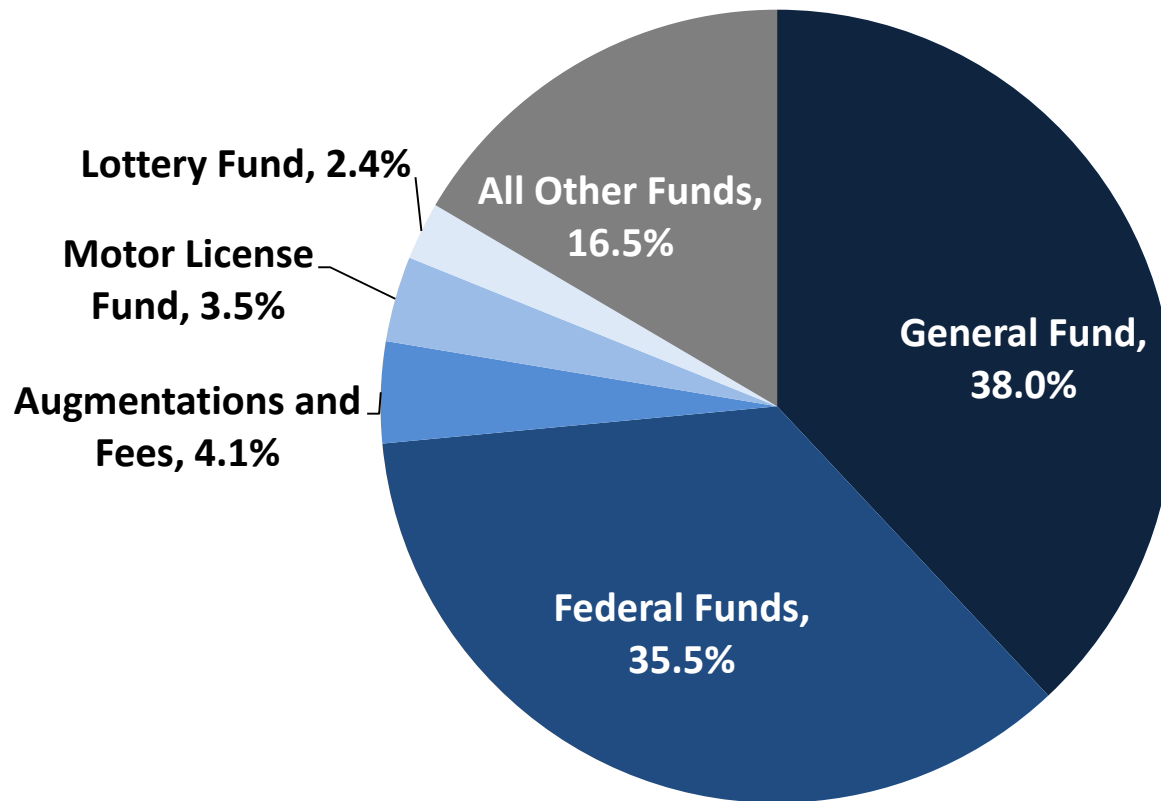


2014-15 General Fund Financial Statement

	(Dollars in Millions)	
	2013-14	2014-15
	<u>Actual</u>	<u>Update</u>
Beginning Balance	\$ 541	\$ 81
Beginning Balance Adjustment	6	-
Revenue Estimate (adj. for Phila. Cig. Tax) . . .	28,607	30,177
Refunds	<u>(1,105)</u>	<u>(1,287)</u>
Total Revenue	27,502	28,890
Prior-Year Lapses	<u>427</u>	<u>89</u>
Funds Available	28,476	29,060
Enacted Expenditures	(28,424)	(29,027)
Supplemental Appropriations	(173)	(81)
Current-Year Lapses	<u>202</u>	<u>60</u>
Total Expenditures	(28,395)	(29,048)
Preliminary Balance	81	12
Transfer to the Rainy Day Fund	<u>-</u>	<u>(3)</u>
Ending Balance	\$ 81	\$ 9



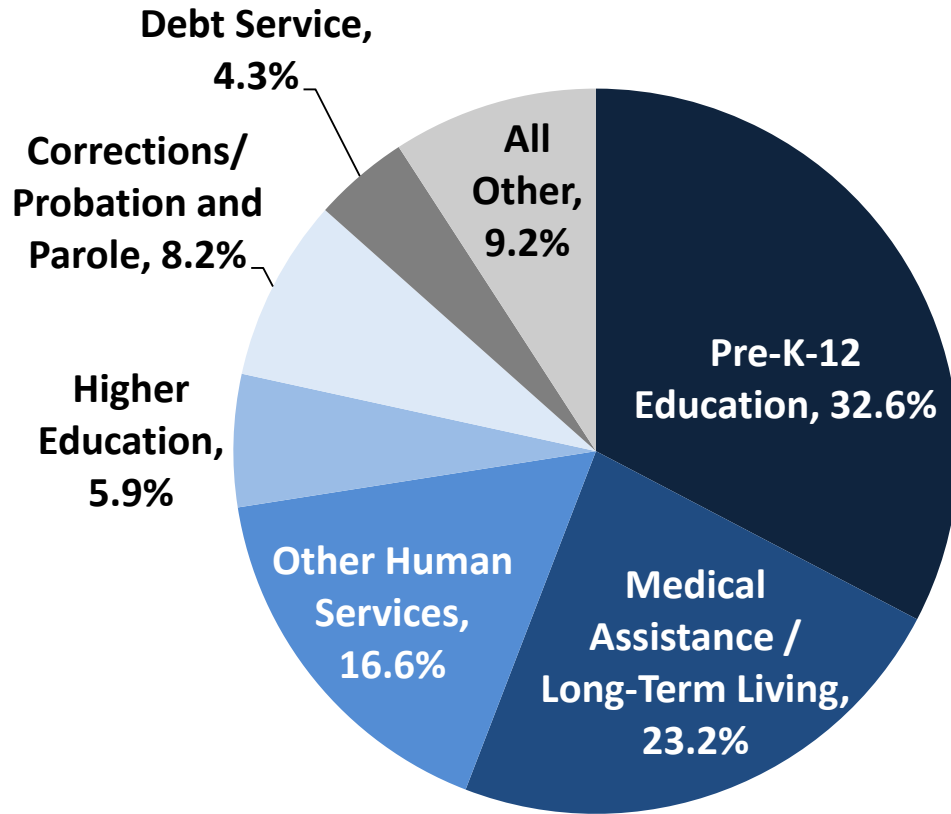
2015-16 Total Operating Budget – \$78.6 Billion



The total 2015-16 operating budget, including all commonwealth funds, is \$78.6 billion. The General Fund represents 38 percent of this amount.



2015-16 State General Fund Budget – \$29.88 Billion



<i>Amounts in Thousands</i>	
Pre-K-12 Education	\$ 9,763,859
Medical Assistance / Long-Term Living	6,927,343
Other Human Services	4,980,552
Higher Education	1,765,861
Corrections/Probation and Parole	2,435,976
Debt Service	1,275,007
All Other	2,735,753
Total General Fund Expenditures	\$ 29,884,351



Jobs that Pay: Reduce School District Property Taxes

- Provide \$3.8 billion in School District Property Tax relief in October 2016
- Provide more than \$1,000 in tax relief for average homeowner
- Reduce homeowner property taxes by an average of more than 50%
- Eliminate school property taxes for 270,000 senior households (nearly a third of senior households)
- Target greater tax relief for high-tax, high-poverty communities
- Enhance Renter Rebate eligibility to households earning up to \$50,000 a year



Jobs that Pay: Fix the Business Tax Climate

Tax Changes

- Reduce the CNI rate from 9.99% to 5.99% effective January 1, 2016
- Implement Mandatory Combined Reporting effective January 1, 2016
- Closing the Delaware loophole provides further opportunity to support a phased in CNI reduction to 4.99% effective January 1, 2018
- Phase out Capital Stock and Franchise Tax on January 1, 2016

Tax Credits

- Eliminate Underperforming Existing Credits
- Institute New Manufacturing Tax Credit: \$5 million

Making Work Pay

- Increase the minimum wage to \$10.10



Jobs that Pay: Bond Funding an Economic Growth Plan

Invest Marcellus Shale Resources to Create Jobs:

- Bond Issuance: \$675 million
 - Recapitalize DCED Loan Programs (PIDA): \$100 million
 - Business in Our Sites: \$250 million
 - Energy Portfolio: \$225 million
 - Alternative Energy: \$100 million
 - Last Mile: \$25 million
 - Solar Investment: \$50 million
 - Energy Efficiency: \$50 million
 - Technology Investment: \$100 million
 - New Technology Initiatives: \$50 million
 - IRC Manufacturing: \$50 million
- Debt Service paid from Marcellus Shale Severance Tax: \$55 million annually



Jobs that Pay: \$1 Billion Infrastructure Investment Initiative

Transportation: \$500 million per Act 89

- \$145 million in 2014-15
- \$195 million in 2015-16
- \$160 million in 2016-17

PennVest Securitization: \$500 million



Jobs that Pay: Funding an Economic Growth Plan

Industrial Resource Center (IRC) Manufacturing Initiative: \$12 million

- IRCS: \$7 million
- University Manufacturing Consortium: \$5 million
- The Manufacturing Initiative supports a consortium of Pennsylvania research universities to advance manufacturing technology and commercialization



Jobs that Pay: PA Rising – Higher Education and Workforce Development

- **Career and Technical Education:**
 - Career Technology Center (CTC) Initiative: \$15 million
 - Career Counselors: \$8 million
 - Equipment Grants: \$5 million
- **Community Colleges:** \$15 million
- **Industry Partnerships:** \$10 million
- **WEDnetPA:** \$8 million (part of \$25 million PA First)
- **Vocational Rehabilitation Fund:** \$5 million

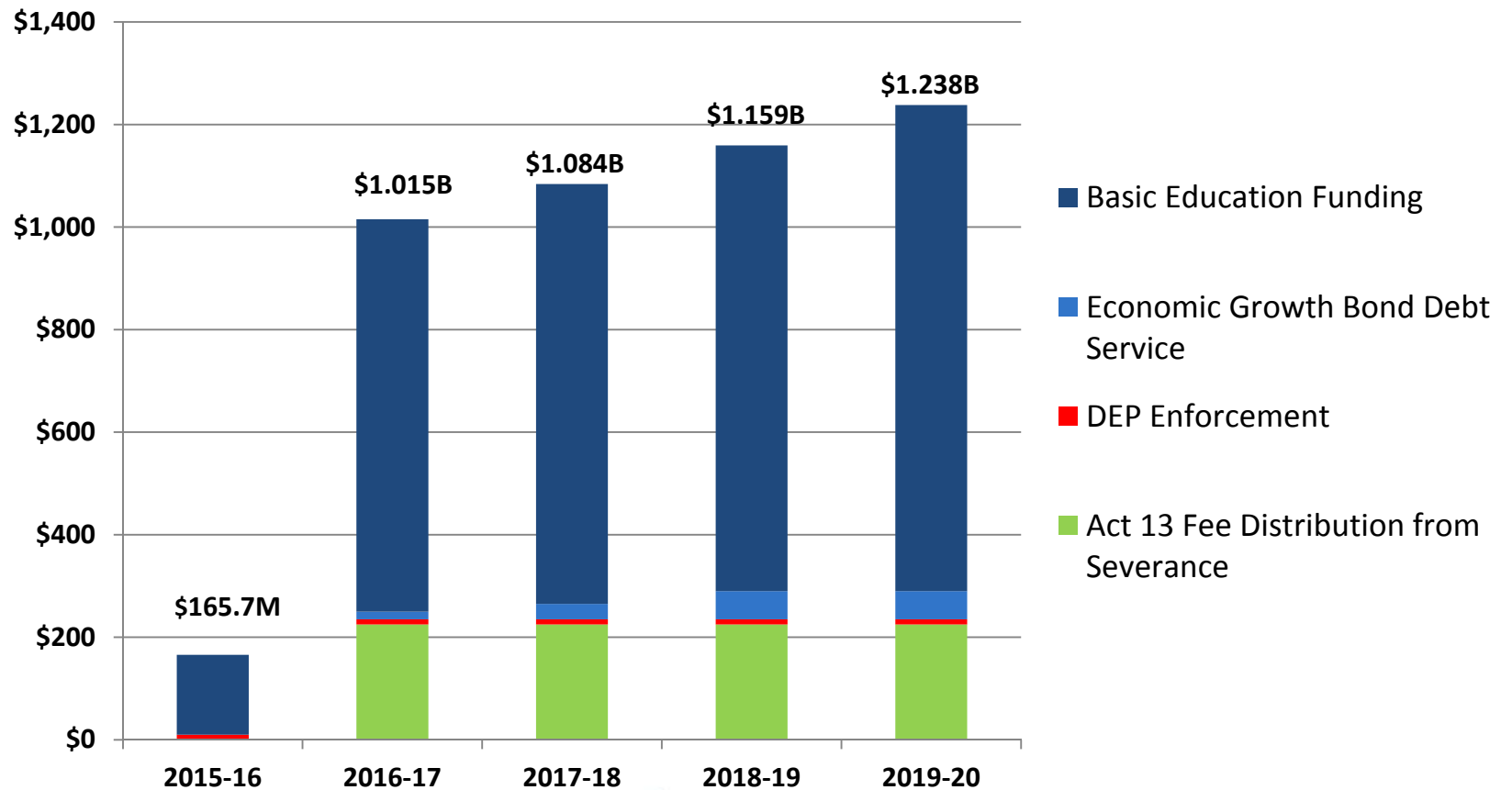


Jobs that Pay: PA Rising – Higher Education and Workforce Development

- Fully restore higher education cuts over two years
- \$140 million first-year increase restores more than 50% of funding
 - State-Related Universities: \$80 million
 - PASSHE: \$45 million
- New PHEAA-Funded Initiatives: \$25 million
 - Enhance STEM Scholarship Initiatives: \$7.5 million
 - Health Practitioners for Underserved Communities: \$8.5 million
 - Dual Enrollment Grant Program: \$9 million
- Institutional Assistance Grants: \$5 million
- Ready to Succeed Scholarships: \$10 million

Severance Tax Revenues for Basic Education, Economic Growth and to Replace the Act 13 Impact Fees

(Dollars in Millions)



In 2015-16, the full Act 13 Distribution will come from impact fees collected during 2015.

Schools that Teach

- \$1 billion in new education investment including:
 - Basic Education Funding: \$400 million
 - Special Education: \$100 million
 - Cyber Charter Funding Reform: \$160 million
- \$2 billion increase over four years for basic education, special education, and early learning initiatives
- Property tax relief and new education investment increases state share of education funding above 50% threshold



Schools that Teach: Early Childhood Education

- **Pre-K Counts New Investment: \$100 million**
- **Head Start Supplemental Assistance: \$20 million**
- **Increase number of children served by 75%**

Down payment on Pennsylvania's plan for universal high-quality pre-K education for 3- and 4-year-olds.



Schools that Teach: Accountability

- Renew focus on strong and fair accountability for students, educators, and schools
- Ensure public's return on investment and maximize the impact of new funding to increase student achievement
- Require investment in evidence-based programs and demonstrate impact with quantifiable performance goals



Government that Works: Transparency and Accountability

Governor's Office of Transformation, Innovation, Management and Efficiency (GO TIME)

- 2015-16 savings of more than \$150 million:
 - Improve procurement strategies: \$100 million
 - Consolidate administrative functions: \$6 million
 - Modernize technology used to manage public works projects: \$3 million



Government that Works: Responsibly Meet Pension Obligations

- Reduce PSERS unfunded liability by more than \$10 billion
- Reform SERS and PSERS investment strategies to reduce costs of fund management fees paid to Wall Street firms
- Refinance \$3 billion in existing PSERS pension debt
 - Enhance operations of Wine and Spirits stores to maximize state profit
 - Transfer \$185 million annually in 2017-18 and thereafter to pay bond debt service
- Create restricted account to guarantee future employer payments
- Total Five-Year Savings: nearly \$1.3 billion
 - School District Savings: \$370 million
 - State Savings: more than \$900 million

Government that Works: Human Services

- **Medicaid Expansion:** More than \$500 million in savings
- **Initiatives to further reduce Department of Human Services spending**
 - \$130 million maximizing revenue opportunities
 - \$31 million in additional pharmacy rebates
 - \$38.3 million initiative for home and community-based services
- **Implement Medicaid managed long term care plan**
 - Phase 1 Initiative
 - Full implementation in three years
- **Children's Health Insurance Program (CHIP):** expand coverage to 15,881 children



Government that Works: Human Services

- **Reduce Waiting Lists for Individuals with Disabilities, including Autism: \$45.9 million**
- **Domestic Violence Services: \$1.5 million**
- **Rape Crisis: \$876,000**
- **Treatment to Combat Increase in Heroin Use:**
 - Behavioral Health Services: \$2.5 million
 - Assistance to Drug and Alcohol Programs: \$5 million



Government that Works: Consolidation of the Department of Corrections and the Pennsylvania Board of Probation and Parole

Improve Treatment and Caseload Management:

- Provide continuity of care following release

Improve Public Safety:

- Provide seamless supervision and better control

Reduce Costs:

- Eliminate duplicate executive and administrative functions
- Eliminate multiple offices within communities
- Single point of financial responsibility

Improve Accountability:

- Provide unified leadership and supervision

The Board of Probation and Parole and the Sexual Offenders Assessment Board will maintain independent parole and assessment responsibility.

Government that Works: Other Program Enhancements

- **Increased Services for Veterans**
 - Homeless Assistance: \$1 million
 - Veterans' Children Education Program: \$500,000
 - Dedicating Capital Redevelopment Assistance Grants for Veterans' Housing: \$25 million
- **Four State Police Cadet Classes: \$9 million**



Revenue Package

- Institute revenue-neutral 1.25% Bank Shares Tax retroactive to fiscal year 2013-14
- Increase PIT to 3.7% effective July 1, 2015
 - Increase eligibility for poverty exemption to 150% of poverty line for family of four
- Expand base and increase Sales Tax to 6.6% effective January 1, 2016, but exempt food, clothing, and prescription drugs
- Increase Cigarette Tax by \$1.00 per pack effective October 1, 2015
- Impose tax on all other tobacco products including e-cigarettes effective October 1, 2015



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Beginning Balance Adjustment	6	-	-	-
Revenue Estimate (adj. for Phila. Cig. Tax)	28,607	30,177	30,625	31,820
Proposed Revenue Changes	-	-	4,662	8,053
Transfer to PSERS Restricted Account	-	-	(1,750)	(2,247)
Transfers for Property Tax and Rent Relief	-	-	(2,140)	(4,596)
Severance Tax Transfers	-	-	(10)	(250)
Refunds	(1,105)	(1,287)	(1,383)	(1,512)
Total Revenue	27,502	28,890	30,004	31,268
Prior-Year Lapses	427	89	-	-
Funds Available	28,476	29,060	30,013	31,365
Enacted Expenditures	(28,424)	(29,027)	(29,884)	(31,305)
Supplemental Appropriations	(173)	(81)	-	-
Current-Year Lapses	202	60	-	-
Total Expenditures	(28,395)	(29,048)	(29,884)	(31,305)
Preliminary Balance	81	12	129	60
Transfer to the Rainy Day Fund	-	(3)	(32)	(15)
Ending Balance	\$ 81	\$ 9	\$ 97	\$ 45

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