

GOVERNOR WOLF

SCHOOLS THAT TEACH • JOBS THAT PAY • GOVERNMENT THAT WORKS

**2017-18
GOVERNOR'S EXECUTIVE
BUDGET**

Tom Wolf
Governor

Randy Albright
Secretary of the Budget

February 7, 2017



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GENERAL FUND FINANCIAL STATEMENT

(Dollars in Thousands)

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
Beginning Balance	\$ 274,457	\$ 1,991	\$ (935,572)
Base Revenue.....	30,883,746	32,236,190	32,528,500
Refunds.....	<u>(1,250,000)</u>	<u>(1,300,000)</u>	<u>(1,320,000)</u>
Total Revenue	29,908,203	30,938,181	30,272,928
Prior-Year Lapses	<u>220,953</u>	<u>57,400</u>	<u>100,000</u>
Funds Available	30,129,156	30,995,581	30,372,928
Enacted/Proposed Expenditures	30,023,825	31,531,722	33,410,081
Supplemental Appropriations	103,341	399,431	
Current-Year Lapses	<u>(1)</u>	<u>-</u>	<u>-</u>
Total Expenditures	30,127,165	31,931,153	33,410,081
Ending Balance	\$ 1,991	\$ (935,572)	\$ (3,037,153)




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2017-18 COST DRIVERS

(dollar amounts in millions)

Pensions	\$	300
Department of Human Services		900
Debt Obligations		100
Department of Corrections		200
Contracts		100
Revenue Shortfall		500
2017-18 Cost Drivers	\$	2,100
2016-17 Ending Balance	\$	936
2017-18 Budget Shortfall	\$	3,036

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STEPS TO REDUCE GENERAL FUND SPEND

- Complement Controls: \$143 M
 - Eliminated Vacancy Funding, Shared Service Consolidation, Early Retirement Incentive Program
- Consolidation and Coordination: \$104 M
 - Department of Criminal Justice, Department of Health and Human Services
- Reducing our Footprint: \$104 M
 - Facility Closures, Lease Management, Facility Downsizing

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STEPS TO REDUCE GENERAL FUND SPEND

- **Eliminating and Reducing Programs Outside Commonwealth's Core Mission: \$171 M**
 - Tax Credit Block Grant, UPENN Veterinary Activities, Institutional Assistance Grants
- **Revenue Enhancements: \$314 M**
 - Minimum Wage Increase, Workers Compensation Security Fund Loan, Other Revenue Maximization
- **Prudent Fiscal Management: \$493 M**
 - Farm Show Lease-Leaseback, Debt Refinancing and Prudent Debt Management, Bond Fund Discretionary Grants

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STEPS TO REDUCE GENERAL FUND SPEND

- **Prioritizing Agency Expenditures and Cost Efficiencies: \$767 M**
 - Reducing DHS Costs: Increased MCO Assessment, Revised Capitation Growth Estimates, Offset Prior-Year Available Funds, Reduce Third-Party Spend
 - Pupil Transportation Cut: Revised formula to incentivize efficiencies, capture savings from lower fuel costs
 - State Police: Require reimbursement from municipalities reliant on PSP for primary coverage
 - GO-TIME, Procurement, and Shared Services Initiatives

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**STEPS TO REDUCE GENERAL FUND SPEND:
SUMMARY**

(dollar amounts in millions)

Prioritizing Agency Expenditures and Cost Efficiencies	\$	767
Prudent Fiscal Management		493
Revenue Enhancements		314
Eliminating and Reducing Programs Outside Commonwealth's Core Mission		171
Complement Controls		143
Consolidation and Coordination		104
Facility Closures, Lease Management, and Facility Downsizing		104
TOTAL	\$	2,096

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GENERAL FUND FINANCIAL STATEMENT

(Dollars in Thousands)

	<u>2015-16</u>	<u>2016-17 Revised</u>	<u>2017-18 Revised</u>
Beginning Balance	\$ 274,457	\$ 1,991	\$ (605,572)
Base Revenue	30,883,746	32,301,190	32,867,500
Revenue Package			1,006,300
Gaming Expansion		100,000	150,000
Refunds	(1,250,000)	(1,300,000)	(1,320,000)
Total Revenue	29,908,203	31,103,181	32,098,228
Prior-Year Lapses	220,953	57,400	245,000
Funds Available	30,129,156	31,160,581	32,343,228
Enacted/Proposed Expenditures	30,023,825	31,531,722	32,103,343
Supplemental Appropriations	103,341	234,431	
New Initiatives			234,359
Current-Year Lapses	(1)	-	-
Total Expenditures	30,127,165	31,766,153	32,337,702
Preliminary Balance	1,991	(605,572)	5,526
Transfer to the Rainy Day Fund			(1,382)
Ending Balance	\$ 1,991	\$ (605,572)	\$ 4,144

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SUSTAINABLE REVENUE PACKAGE

(dollar amounts in millions) **2017-18**

Cap Net Operating Losses at 30%, institute combined reporting in 2019, and step-downs in CNIT rate in 2019-2022	\$81.2
Severance Tax at 6.5% with Impact Fee credit	293.8
Close loopholes to ensure all insurers are taxed consistently (Insurance Premiums Tax)	141.5
Eliminate Special Interest Tax Loopholes	489.8
<i>Commercial Storage</i>	<i>153.6</i>
<i>Customized Software and Services</i>	<i>330.3</i>
<i>Prepared Foods Sold to Airlines</i>	<i>0.8</i>
<i>Aircraft Maintenance and Repair</i>	<i>5.1</i>
TOTAL	\$1,006.3

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MAJOR ACCOMPLISHMENTS

- Invested nearly \$640 million in all levels of education over two years, enacted a fair funding formula, and eliminated backlog for school construction reimbursements
- Provided \$20.4 million to fight the opioid epidemic
- Reduced corrections population by 1,600 inmates since January 2015
- Began implementation of medical marijuana program
- Provided health insurance to more than 700,000 people
- Modernized liquor system to improve customer experience while increasing profits

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GOVERNOR'S PROPOSED 2017-18 BUDGET

- Reinvents and reforms how government works and the public's money is spent
- Identifies \$2.1 B in General Fund cuts and savings to avoid any broad-based tax increase
- Increases funds to educate our children and protect essential services to those most vulnerable
- Transfers nearly \$500 M to the Rainy Day Fund over next five fiscal years

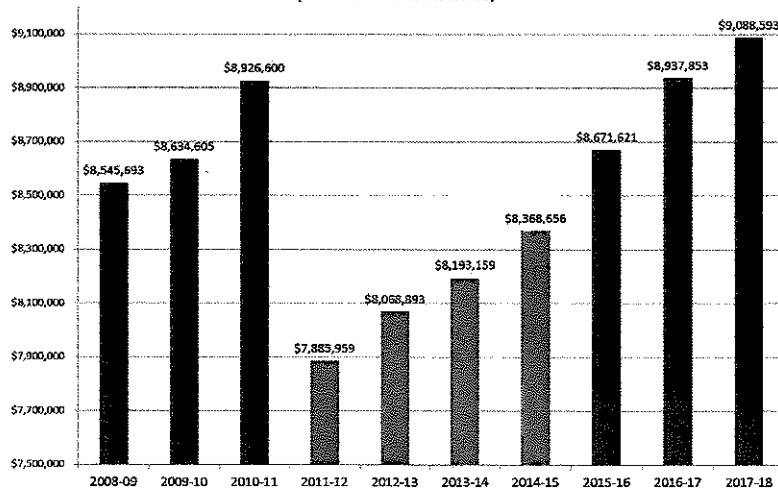
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SCHOOLS THAT TEACH

- Basic Education: \$100 M increase
- Special Education: \$25 M increase
- Pre-K/Head Start: \$75 M increase

Pre-K to 12 Education Funding
(Dollar amounts in thousands)



Note: Excludes Authority Rentals and Sinking Fund Requirements.

SCHOOLS THAT TEACH

- **PASSHE: \$8.9 M increase (2 percent)**
- **Strengthening Education Accountability**
 - Invests \$2 M for school improvement efforts, leveraging \$1 M in federal funds
- **Capturing Efficiencies in Pupil Transportation**
 - Modernizes formula to better reflect costs and incentivize efficiency, resulting in \$50 M in savings
- **Expanding Access to School Breakfast**
 - Provides \$2 M for alternative breakfast delivery models, leveraging up to \$20 M in federal funds

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JOBS THAT PAY

- **Create one-stop shop for business to eliminate red tape**
- **Make business more accountable for the taxpayer dollars they receive to create and expand employment**
- **Invest in our workforce to strengthen training and career pathways to match skills to employment opportunities**
- **Prioritize outreach to define and respond to business needs**

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JOBS THAT PAY

- Manufacturing PA: \$12 M to partner DCED, research institutions, community colleges, and other training providers, including \$5 M for customized training initiatives
- Target \$4 M for expanded apprenticeship opportunities
- Invest \$2.5 M to expand business calling program
- Provide \$6.1 M for targeted marketing strategies to encourage tourism
- Boost the minimum wage to \$12.00 per hour

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GOVERNOR'S PROPOSED 2017-18 BUDGET

- \$32.3 B total spend, only \$571 M (1.8 percent) increase above 2016-17

(dollar amounts in millions)

Mandated Pension Growth	\$	300
Human Service Increases		430
Education Increases		209
	Total \$	939
Net Increase in Annual Expenditures		(571)
Net Cuts Realized Across All Agencies	\$	368

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GOVERNMENT THAT WORKS

- Continuing GO-TIME efforts
 - More than \$156 M in savings realized in 2015-16
 - Over 200 projects in progress or planned, with savings goal of \$500 M by 2020
 - New and ongoing project highlights:
 - Sharing Electronic Grants Software
 - Leveraging Mobile Technology to Increase Staff Efficiency
 - Modernizing Public Works Project Management
 - Decommissioning Redundant Software

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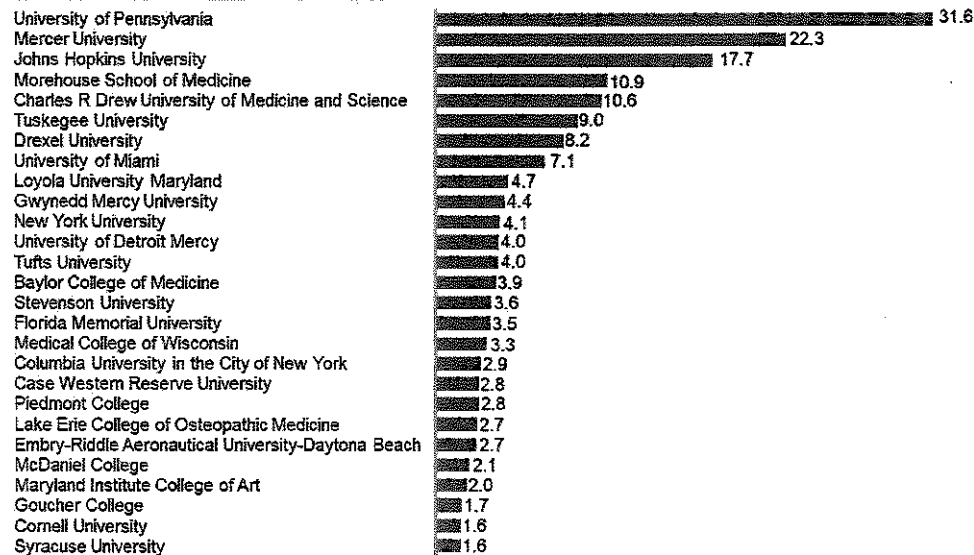
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GOVERNMENT THAT WORKS

- Eliminate \$30 M subsidy to the University of Pennsylvania

State appropriations to private colleges, dollars in millions



SOURCE: IPEDS database

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HEALTH AND HUMAN SERVICES

- Create new, unified department to coordinate service, enhance program effectiveness, and save taxpayer dollars
- Serve nearly 2,000 additional eligible individuals with ID and autism and create a system tailored to their needs
- Expand child care services for an additional 1,800 children to enable parents to work
- Continue the expansion of home and community-based services to right-size the current delivery system

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FIGHTING THE OPIOID EPIDEMIC

- Builds upon \$20.4 M investment in 2016-17, creating 45 Centers of Excellence to improve treatment outcomes
- Invests \$10 M to increase access to Naloxone for first responders
- Provides \$3.4 M to expand specialty drug courts
- Maximizes \$26.5 M in federal Cures Act funding annually for next two years

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GOVERNMENT THAT WORKS

- Builds upon recent action to consolidate investment management in Labor & Industry and Insurance Departments to Treasury
- Consolidates SERS and PSERS investment offices
 - Each board maintains investment decision-making
 - Combined office will be charged with reducing investment management fees
 - Saves \$3 B by 2050

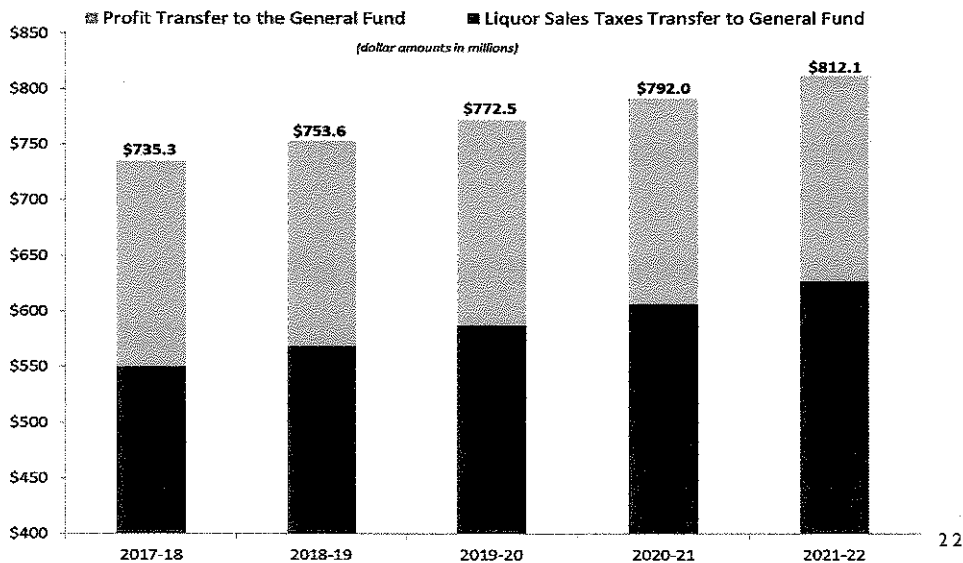
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GOVERNMENT THAT WORKS

- Over the next five years, annual transfers from the State Stores Fund to the General Fund will exceed \$800 M



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GOVERNMENT THAT WORKS

- Nearly 70% of municipalities rely on PSP for local police coverage
- Assess \$25 per capita fee in municipalities without coverage
- Frees up funds for three cadet classes to grow enlisted complement

Full-Time PSP Part-Time PSP/Local PD Full-Time Local PD



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PROTECTING THE ENVIRONMENT

- Provides \$15 M to fund watershed protection activities through the Department of Agriculture, DEP, and DCNR
 - Develops erosion and sediment management best practices
 - Addresses local water quality efforts
 - Expands Chesapeake Bay riparian forest buffer program



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