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2016 – 2017  
Pennsylvania  
Executive  
Budget-in-Brief

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Governor  
Tom Wolf

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SCHOOLS THAT TEACH.

JOBS THAT PAY.

GOVERNMENT THAT WORKS.





COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF THE GOVERNOR  
HARRISBURG

THE GOVERNOR

February 9, 2016

To the People of Pennsylvania:

We have a very tough set of choices to make with this year's budget. Our commonwealth is in crisis and we stand at a crossroad.

My proposed budget provides a clear path for a promising future for our state. It assumes the bipartisan budget agreement that proved elusive in December is ultimately enacted this year. It provides a spending plan for 2016-17 that builds upon that agreement. It invests in our schools, meets critical human service needs, fully funds our pension and debt obligations, and eliminates the structural budget deficit that has plagued us since the Great Recession of 2008. My proposed budget lays out the path we must follow if we want to pursue financial responsibility and a hopeful future. It proposes that the state take its rightful share of the responsibility for funding our schools; it proposes that this investment include a reasonable share for early childhood education and higher education; and it proposes that we actually fund these investments with real sources of revenue. It includes key government consolidations along with targeted investments that build upon the bipartisan budget agreement. It faces up to reality and does the difficult things we need to do to bring it into balance. It will allow us a foundation to achieve a more hopeful future for Pennsylvania.



There is another path. For far too long our commonwealth has spent in excess of revenues. The gap was always made up with one-time patches and wildly optimistic assumptions. We can choose a path that continues to ignore financial reality and pretends the commonwealth's budget is in balance when it clearly is not. That path abandons any bipartisan compromise. That path will result in a deficit of more than \$500 million by the close of this fiscal year, and would balloon to more than \$2 billion by July of 2017. All funds for our state-related universities and any other non-preferred appropriations would be eliminated. Another \$1 billion would be cut from education, doubling down on the deep cuts of the past. Human service funding for counties, intellectual disabilities and autism, home and community-based services, and child care would be reduced by \$600 million or more. This path will lead us into a dismal future of shuttered schools, higher property taxes, and lower bond ratings that lead to higher borrowing costs for state and local governments. The consequences of such action are grim. These consequences cannot be ignored.

We have a choice. We must choose a path that funds our schools, eliminates our deficit, and puts Pennsylvania back on track. It is time for us to finish the job and restore Pennsylvanians' shaken faith in their government. It is time to fund our schools. It is time to face financial reality. It is time to give Pennsylvania the bright future it deserves.

Sincerely,

Tom Wolf



# *Commonwealth of Pennsylvania*

## *2016-17 Budget in Brief*

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

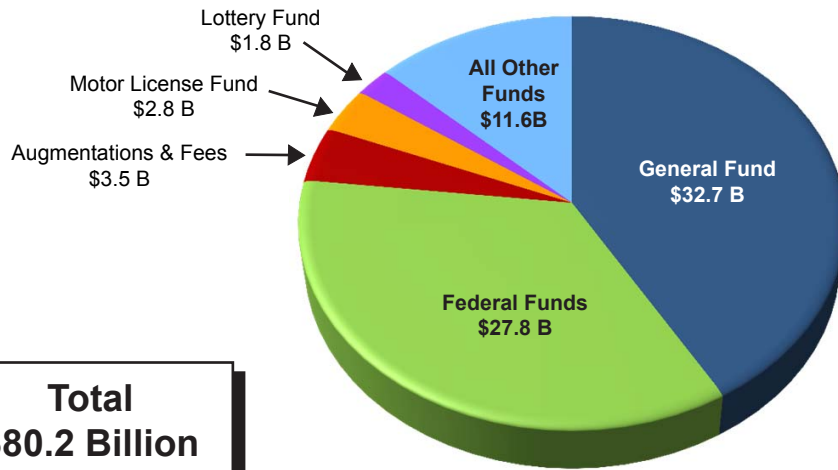
**[www.budget.pa.gov](http://www.budget.pa.gov)**

See COMMONWEALTH BUDGET section.

# Table of Contents

Budget Overview .....	4
Budget Highlights .....	5
Introduction.....	7
Schools that Teach .....	8
Jobs that Pay.....	12
Government that Works.....	15
General Fund Financial Statement.....	21
General Fund Revenue Sources .....	21
General Fund Expenditures by Agency.....	22
Motor License Fund.....	23
Economic Outlook .....	24

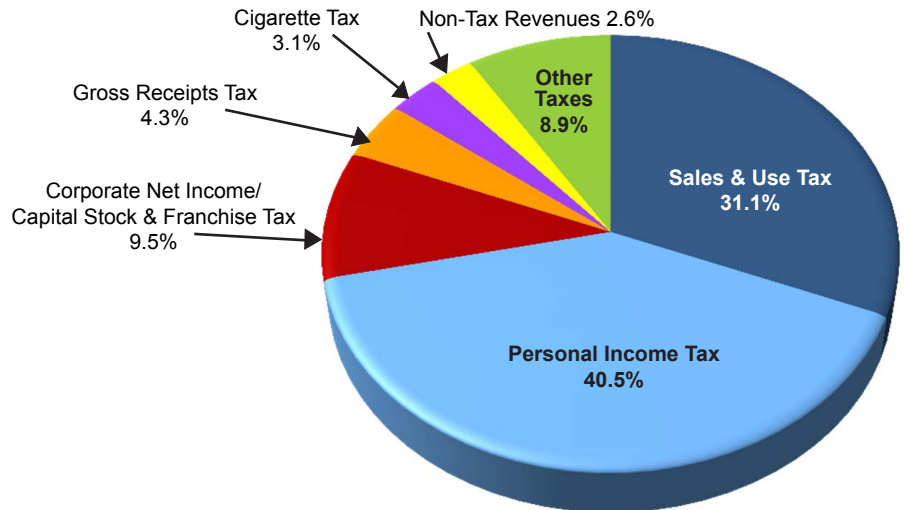
# Budget Overview



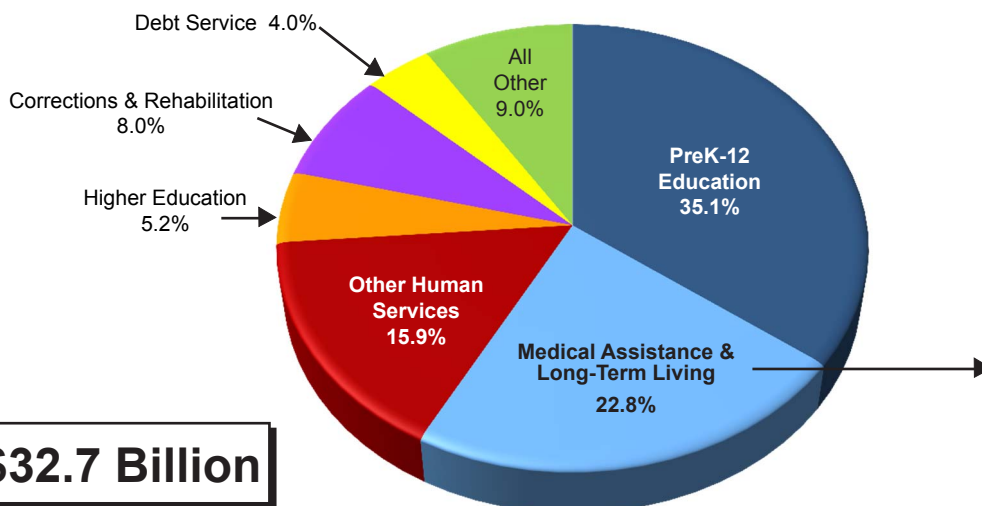
## Total Operating Budget

**Total  
\$80.2 Billion**

## General Fund Revenues

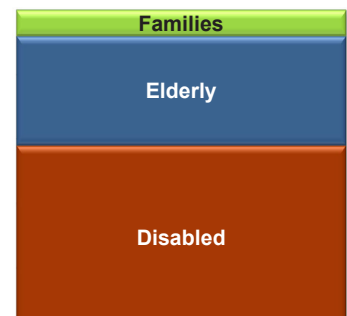


## General Fund Expenditures



**\$32.7 Billion**

### Medical Assistance & Long-Term Living Spending by Recipient Category



# Budget Highlights

*This budget provides a clear path for a promising future for Pennsylvania. It invests in our schools, meets critical human service needs, fully funds our pension and debt obligations, and eliminates the structural budget deficit. It prepares students and workers for good paying, 21st century jobs, improves our business climate to attract family-sustaining jobs, and makes government more efficient and effective.*

- The budget assumes the bipartisan budget agreement that proved elusive in December 2015 is ultimately enacted this year and provides a spending plan that builds upon that agreement.
- The General Fund budget is \$32.7 billion, driven by \$1.6 billion of mandated spending increases (Debt Obligations: \$100 million; Corrections: \$178 million; Human Services: \$800 million; and Pensions: \$500 million.)

## Schools That Teach

- Pre-K to 12 Education Increases:
  - ✓ Basic Education: \$200 million (Fair Funding Formula).
  - ✓ Special Education: \$50 million.
  - ✓ Pre-K and Head Start programs: \$60 million.
- The budget strengthens the accountability system to demonstrate success.
- Charter School Funding Reform:
  - ✓ 2014 Special Education Funding Commission Charter School Reforms: \$180 million savings.
  - ✓ Cyber Charter Reforms: \$50 million savings.
  - ✓ End the Pension “Double Dip”: \$110 million savings.
  - ✓ Reimbursements based on Audited Costs (unassigned fund balances are \$148 million).
- Career and Technical Education:
  - ✓ Career and Technical Education: \$15 million increase.
  - ✓ CTE Equipment Grants: \$5 million.
  - ✓ Career Counselors: \$8 million.
- Higher Education: Two-Year 5% Increases
  - ✓ Community Colleges: \$22.1 million increase.
  - ✓ PA State System of Higher Education: \$42.3 million increase.
  - ✓ State-Related Universities: \$59.7 million increase.

## Jobs That Pay

- Full phase-out of the Capital Stock and Franchise Tax effective January 1, 2016.
- Proven job creation programs:
  - ✓ PA First: \$45 million.
  - ✓ Keystone Communities: \$15 million.
  - ✓ Infrastructure and Facilities Improvement Program: \$30 million.

# Budget Highlights

- Base Realignment and Closure: \$798,000.
- Reallocate \$125 million in existing CFA resources to recapitalize Business in Our Sites.
- Boost the Minimum Wage to \$10.15 per hour.
- Workforce Investment and Training:
  - ✓ Workforce Innovation and Opportunity Act: Inter-agency initiative to match employers with workers.
  - ✓ Industry Partnerships: \$11.6 million.
  - ✓ Vocational Rehabilitation: \$2 million increase, to leverage \$8 million in federal funds.
  - ✓ IRC Manufacturing Initiative: \$12 million.
  - ✓ Summer jobs and youth employment programs.

## Government That Works

- Administrative consolidations and savings:
  - ✓ Merge Department of Corrections and Board of Probation and Parole: \$10 million savings.
  - ✓ Move eHealth Partnership to the Department of Human Services: \$1 million savings.
  - ✓ Transfer CHIP to the Department of Human Services to reduce administrative costs.
  - ✓ Pension improvements:
    - Reduce investment fees and consolidate investment management.
    - Abolish the Public Employee Retirement Commission.
- GO-TIME: Governor's Office of Transformation, Innovation, Management and Efficiency will:
  - ✓ Launch a commonwealth-wide continuous process improvement program to review agency operations to maximize efficiency and deliver better customer service.
  - ✓ Pursue opportunities to partner with external entities to address challenges.
  - ✓ Develop recognition programs to incentivize and reward employee engagement in transformational activities.
- Initiatives to drive long-term savings:
  - ✓ Expanding home and community-based care: \$92 million.
  - ✓ Restoring human services cuts for county-based programs: \$28 million.
  - ✓ Reducing waiting lists for intellectual disabilities, autism and child care: \$24 million.
  - ✓ Home visiting intervention for at-risk infants and toddlers: \$10 million.
  - ✓ Combating the heroin and opioid epidemic: \$34 million.
  - ✓ Protecting our farmers and food suppliers: \$3.5 million.
  - ✓ Creating new problem-solving courts: \$300,000.
  - ✓ Expanding intermediate punishment programs to non-participating counties: \$2 million.

# Introduction

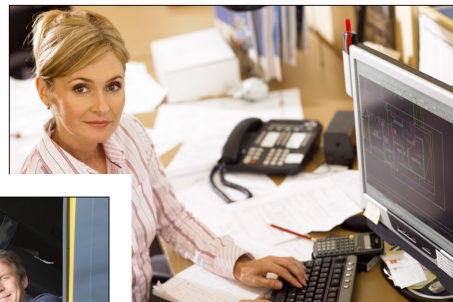
Today, we stand at a crossroad. The path we choose will have a profound impact on our commonwealth's future. The proposed budget provides a clear vision for a promising future for our state. **It assumes the bipartisan budget agreement that proved elusive in December is ultimately enacted this year.** It provides a spending plan for 2016-17 that builds upon that agreement. It invests in our schools, meets critical human service needs, fully funds our pension and debt obligations and eliminates the structural budget deficit that has plagued us since the Great Recession of 2008.

We must, however, acknowledge that another path looms before us. That vision abandons any bipartisan compromise. Critical funds for our schools, our communities, and to repair our state's fiscal health are lost. The resulting deficit, more than \$500 million by the close of this fiscal year, would balloon to more than \$2 billion by July of 2017. The consequences of such action are grim, but cannot be ignored.

All funds for our state-related universities and any other non-preferred appropriations would be eliminated. Another \$1 billion would be cut from education, doubling down on the deep cuts of the past. Human service funding for counties, intellectual disabilities and autism, home and community-based services, and child care would be reduced by \$600 million or more. Bond ratings would be lowered again, while debt costs and local property taxes would soar upward.

In sharp contrast, **the budget plan that follows assumes we will take the path of the bipartisan budget agreement and invest in our state and our future. That path includes key government consolidations along with targeted investments that build upon the bipartisan budget agreement.** This plan provides a prudent path forward to support schools that teach, jobs that pay, and a government that works.

**SCHOOLS THAT TEACH.  
JOBS THAT PAY.  
GOVERNMENT THAT WORKS.**





# Schools that Teach

*Governor Wolf has made clear his strong commitment to education in Pennsylvania by fighting to restore critical education funding cuts, provide unprecedented support to high-quality pre-k programs and ensure students are college and career ready. The governor continues to advocate for increased funding for Pennsylvania schools to deliver high-quality education to every student across the state, regardless of zip code. An expanded, modernized and accountable education delivery system is the foundation for long-term economic growth in the commonwealth.*

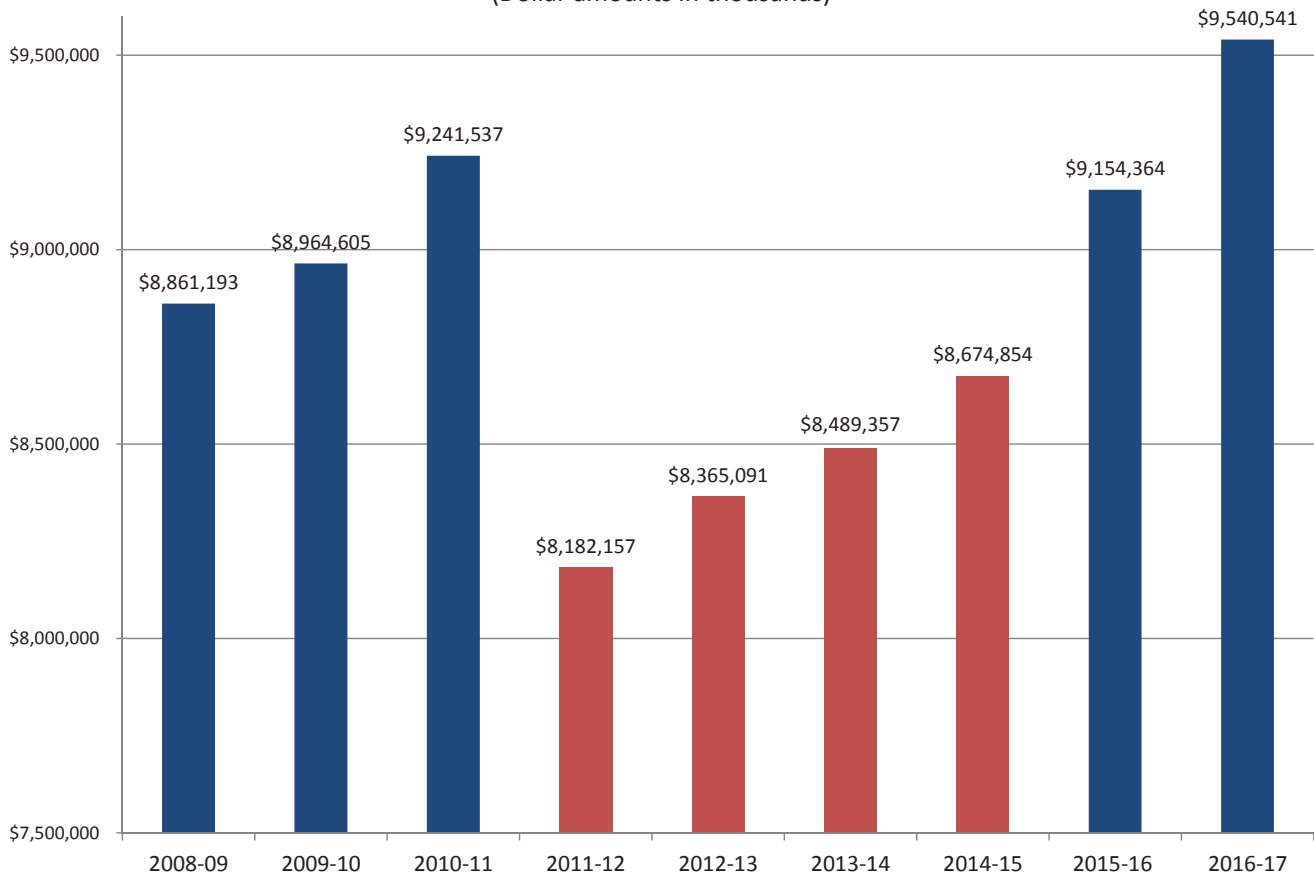
## Significant Investments in Education

- **A \$200 million (3.3 percent) increase in the Basic Education Subsidy.** This increase, above the assumed \$377 million increase in 2015-16, will be distributed using the fair funding formula created and unanimously adopted by the bipartisan Basic Education Funding Commission in June 2015. The formula provides sufficient, predictable and equitable funding for school districts across the

commonwealth, and includes student-based factors like the number of children in the district who live in poverty or who are enrolled in charter schools, as well as district-based factors such as the wealth of the district, the district's current tax effort, and the ability of the district to raise revenue.

## Pre-K to 12 Education Funding

(Dollar amounts in thousands)



## Schools that Teach (continued)

- **A \$50 million (4.6 percent) increase in the Special Education Subsidy.** This increase, in addition to the assumed \$50 million increase in 2015-16, will continue Pennsylvania's transition to the funding formula enacted in 2014 reflecting the work of the bipartisan Special Education Funding Commission.
- **A \$60 million (30.5 percent) increase in high-quality early childhood education.** This funding increase builds upon the \$60 million investment in 2015-16 to enroll about 14,000 additional children in Pennsylvania Pre-K Counts and the Head Start Supplemental Assistance Program.
  - In 2003, Pennsylvania joined the ranks of states that offer full-day pre-kindergarten for 3- and 4-year-olds. Currently, only 30 percent of Pennsylvania children in families earning up to three times the federal poverty level – or \$72,750 for a family of four – are enrolled in high-quality pre-k programs.
  - Studies show that children who participate in high-quality pre-kindergarten perform better in school, graduate at higher rates and earn more throughout their working lives compared to peers that do not have access to early learning programs. Additionally, children who were previously enrolled in Pre-K Counts outperform their economically disadvantaged peers in third-grade math and reading.

public confidence in the performance of our schools. Throughout the past year, Governor Wolf has traveled across the state to hear the ideas of Pennsylvania's educators and administrators.

As one component of a larger accountability agenda, the 2015-16 Budget included new accountability provisions to maximize both the public's return on education investment and the impact of new funding to increase student achievement. In line with these provisions, 96 percent of school districts across the commonwealth submitted a funding impact plan to the Department of Education. These plans outlined how education funding increases will be invested directly in classrooms by introducing and expanding evidence-based programs and restoring cuts to other programs and personnel that school districts were forced to make as a result of previous state budget cuts. In their submissions, school districts planned to use funding increases to maintain or expand high-quality early childhood education and full-day kindergarten programs, reduce class sizes and bring back guidance counselors and librarians.

Going forward, school districts will also be required to demonstrate the impact these investments have on quantifiable student performance outcomes.

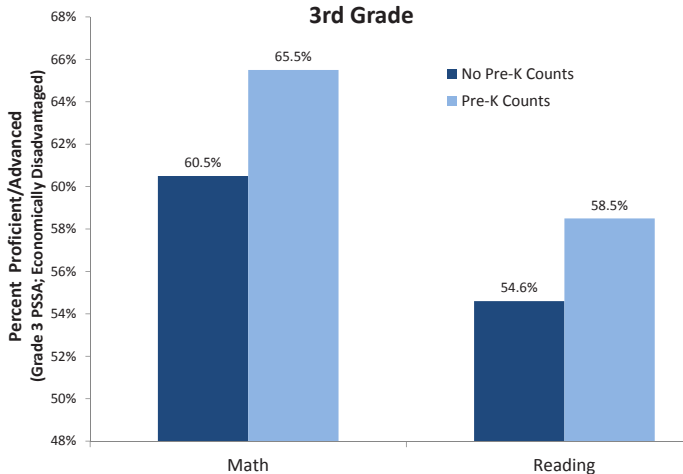
### Turnaround Schools

In order to more fully meet the needs of the commonwealth's persistently low-performing schools, the Department of Education will devote full-time resources and supports to address the governor's goal of achieving equity, sustainability and accountability for schools. To reach these goals – as well as fulfill federal requirements – the department will establish an Office of School Improvement. The department will identify persistently low-achieving turnaround schools eligible for OSI-led interventions and support, including diagnostic audits, revised school improvement plans, and training and technical assistance. Turnaround Specialists will work with school leadership teams to identify and leverage resources through the department, Intermediate Units, higher education institutions and other educational partners. Through these targeted efforts, the Office of School Improvement will help schools implement new policies and systems that support student success while closing the achievement gap.

### School Performance Profiles

While the 2016-17 Budget continues to make historic investments in our education pipeline, we know we need to ensure these funds are used to produce students who are prepared for a 21st-century economy. The current School Performance Profile overly relies on test scores, which can be a useful indicator of academic performance but should be balanced against other indicators of student success.

Low-Income Children in Pre-K Outperform Peers by 3rd Grade



## Strengthening Pennsylvania's Education Accountability System

The 2016-17 Budget continues to focus on strong and fair accountability at all levels of the education delivery system – for students, educators and schools. To improve these accountability systems, the state must start by listening to key stakeholders and developing an accountability framework that will improve and support the success of our public education system, reduce over-testing and ensure



Over the last year, the administration engaged with stakeholders, including teachers and administrators, advocates, lawmakers and families across the commonwealth, to discuss a revised School Performance Profile that takes into account student growth, opportunities for advanced study, industry benchmarks, and student behaviors, like attendance, that impact school success. This new School Performance Profile will hold schools accountable for more than just the results of a test score that captures student learning at one point in time. The revised measure will help ensure that all schools are supporting student learning and graduating students who are prepared to enter the workforce, seek additional training, or attend an institution of higher learning.

### Charter School Reform

#### *Charter School Reimbursements for Special Education*

The 2016-17 Budget proposes to implement the recommendations of the bipartisan Special Education Funding Commission by adjusting charter school reimbursements to better reflect actual costs of educating students with special needs. The proposed change will be phased in over the next three years, and result in more than \$180 million in savings to school districts. The recommended funding formula, which is already used to distribute Special Education Funding increases to school districts, incorporates

three levels of reimbursement tied to per-student cost of services. The appropriate multiplier is applied to a school district's regular education tuition rate to determine the tuition reimbursement for each special education student educated at a charter school:

- 1.51 for students receiving services less than \$25,000 per year (Category 1);
- 3.77 for students receiving services equal to or greater than \$25,000 but less than \$50,000 per year (Category 2); and
- 7.46 for students receiving services equal to or greater than \$50,000 per year (Category 3).

#### *Cyber Charter Funding Reform*

Cyber charter schools are fundamentally different from traditional brick-and-mortar charter schools, and cyber charter tuition rates should reflect these structural realities. Pennsylvania's cyber charter schools, unlike brick-and-mortar charter schools or traditional public schools, do not have many of the same facility costs and face-to-face service delivery costs. The 2016-17 Budget implements a new funding formula for cyber charter schools to better align tuition payments with actual costs. These funding reforms will save \$50 million annually for school districts across the commonwealth:

- Regular Education Tuition. In addition to the standard deductions currently used to calculate regular education tuition rates, the budget proposes taking additional deductions from total expenditures to better reflect the different costs incurred by cyber charter schools. The additional deductions include expenditures for libraries, nonpublic support, tax assessment and collection, nonpublic health, community services, and a portion of operation and maintenance of plant services. The per-student regular education tuition rate is then capped at the 70th percentile rate across all Pennsylvania school districts.
- Special Education Tuition. For the more than 6,800 special education students educated at cyber charter schools across the state, special education tuition rates are calculated according to current law, which would incorporate the revised regular education tuition rate, as previously described. The special education rate is also capped at the 70th percentile rate across all school districts.

#### *Permanently Ending the Pension "Double Dip"*

The General Assembly previously enacted bipartisan reform to stop both brick-and-mortar charter and cyber charter schools from being paid twice for the same employee pension costs. The budget makes this reform a permanent part of education law.

## Schools that Teach (continued)

### Reimbursement Based on Audited Costs

By the end of the 2013-14 school year, charter and cyber charter schools amassed undesignated, unreserved fund balances of more than \$148 million by collecting more in tuition revenue than they actually spent on students. The 2016-17 Budget includes a requirement for an annual reconciliation, whereby charter and cyber charter schools will refund money to their sending school districts if the charter school's audited expenditures are less than its tuition revenue.

### Building a Bridge from High School to College and Careers

Preparation for high-skill careers must start long before most students even begin to think about college and careers. Fewer than half of Pennsylvania's citizens have a college degree or industry-recognized certification. By 2025, roughly 60 percent of good-paying, reliable jobs in the state will require these credentials. Across the nation, employers report difficulty finding qualified applicants and incur training costs for workers who lack necessary skills. To ensure that the next generation of Pennsylvanians – those currently in middle school and high school – are prepared for the jobs of the future, we must begin to close the gap today.

Over the next decade, Pennsylvania will seek to make a college degree or high-value industry-recognized certification available to at least 650,000 additional commonwealth residents. The 2016-17 Budget invests in programs that continue to modernize Career and Technical Education in Pennsylvania:

- **Career and Technical Education.** The 2016-17 Budget provides **\$15 million** in additional support for the establishment and expansion of high-quality CTE programs to prepare students for success in today's economy. School districts, Career and Technology Centers, higher education institutions, employers and labor organizations can work together through public-private partnerships to train students for high-priority occupations that pay a living wage and offer a career ladder for growth opportunities. Students will have the opportunity to earn college credit and industry credentials while participating in work-based learning.
- **Career and Technical Education Equipment Grants.** The budget includes **\$5 million** for CTE equipment grants to support updating or purchasing new equipment used in the training of students. Priority will be given to Career and Technical Education grant applicants that show an in-kind or monetary contribution from employers or other partners.
- **Career Counselors.** Continuing the investments made in 2015-16, the 2016-17 Budget includes **\$8 million** to help school districts to offer college and career counseling in middle and high schools to develop pathways to higher education and high-skill careers.

### Reinvesting in Pennsylvania's Institutions of Higher Learning

The 2016-17 Budget reinvests in higher education by continuing Governor Wolf's commitment to a four-year restoration of the damaging cuts to our colleges and universities. In addition, the budget supports programs that help to achieve the goal of 60 percent of Pennsylvanians with a degree or high-value certificate by 2025 (read more about this initiative in the *Jobs that Pay* theme in this section).

The state will work with community colleges and the Pennsylvania State System of Higher Education to develop individual college plans that address performance, affordability and accountability, while partnering with employers to create structured career pathways. Pennsylvania's world-class colleges and universities also play a critical role in research, innovation, and invention. The combined funding increases in 2015-16 and 2016-17 for our higher education delivery system are as follows:

- **Community Colleges.** A **\$22.1 million** increase for Pennsylvania's 14 community colleges to achieve degree, certificate, or certification goals.
- **PASSHE.** A **\$42.3 million** increase for the 14 universities that are part of the Pennsylvania State System of Higher Education.
- **State-Related Universities.** A **\$59.7 million increase** for Penn State University, the University of Pittsburgh, Temple University and Lincoln University. These resources will encourage innovation by helping the four public universities translate research into job creation.



# Jobs that Pay

*Since his inauguration, Governor Wolf has made “Jobs that Pay” a priority in Pennsylvania. Throughout the year, the governor and members of his cabinet heard from business owners, industry leaders and hardworking Pennsylvanians statewide about what the Wolf administration can do to help them thrive.*

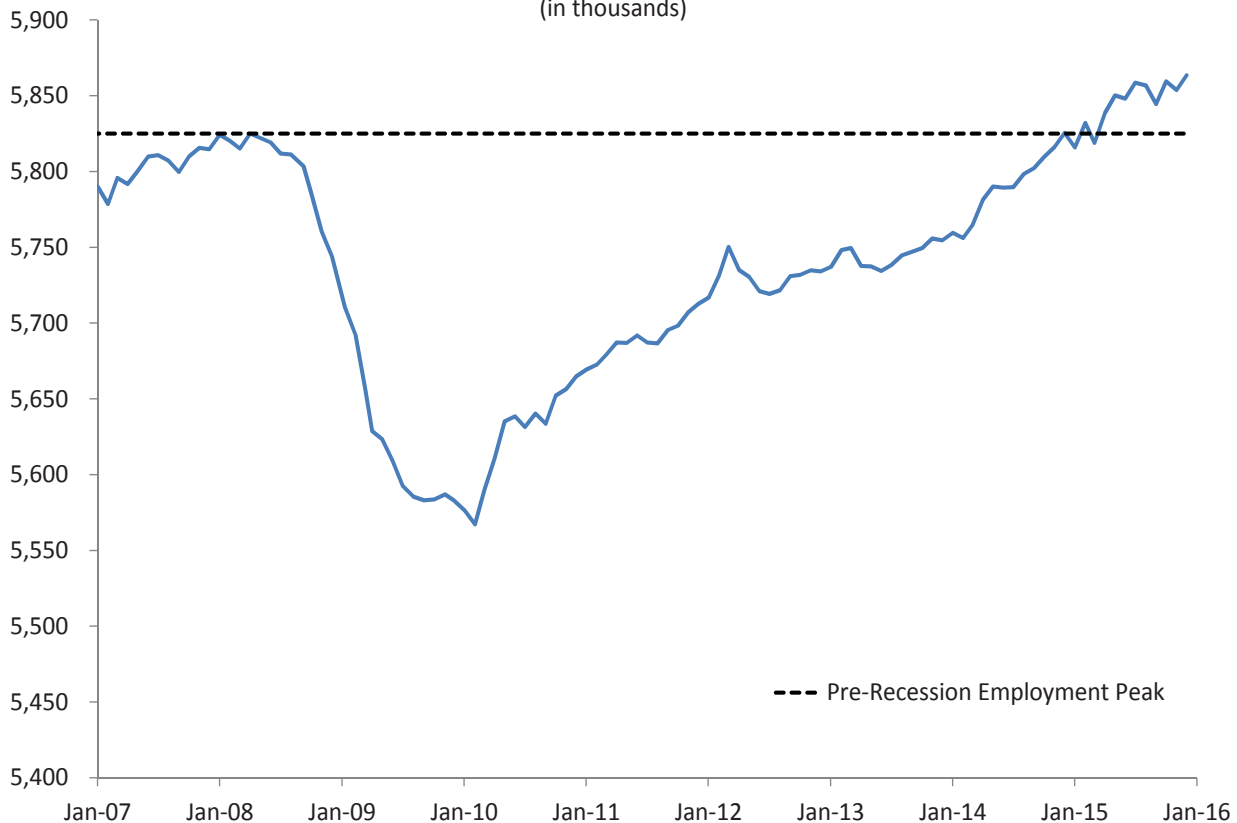
Through the work of the Governor’s Action Team, a group of economic development professionals who report directly to the governor, the administration continues to work with businesses that are considering locating to or expanding in Pennsylvania. In 2015, the team completed 58 relocation and expansion projects, creating more than 4,500 new jobs and retaining over 11,000 positions.

Governor Wolf announced the successful January 1, 2016, phase-out of Pennsylvania’s Capital Stock and Foreign Franchise Tax, calling it “an unfair tax on business” that he was committed to eliminating. The Capital Stock and Foreign Franchise Tax dates to 1844. Its phase-out that had been scheduled by Governor Tom Ridge for elimination in 2008 was delayed by subsequent administrations.

Solid Gross Domestic Product growth of two percent in the Pennsylvania economy boosted employment up and moved the jobless rate down. In December 2015, the unemployment rate dipped below five percent for the first time since March 2008. At 4.8 percent, the December jobless rate was also lower than the national unemployment rate. Over the year, total nonfarm jobs in Pennsylvania were up 38,000 (0.7 percent), with growth in the majority of the state’s industry sectors.

The 2016-17 Budget continues to focus on policies and investments that foster the creation of good-paying jobs, encourage partnerships among business and our education system, and lead to a strong Pennsylvania economy.

**Nonfarm Employment in Pennsylvania**  
(in thousands)



Source: Current Employment Statistics, U.S. Bureau of Labor Statistics

### Investing in Proven Job Creation Programs

Successful economic development requires partnerships between the public and private sectors. The 2016-17 Budget continues a two-year restoration of previous cuts in economic development programs by reinvesting in initiatives that are proven to create jobs and result in long-term economic growth.

The PA First program is a comprehensive funding tool used to facilitate private capital investment, foster job creation, and encourage development of critical infrastructure and workforce training programs. The budget provides an **increase of \$11 million for PA First** for a total of \$45 million, estimated to create at least 11,000 jobs, retain 40,000 jobs, and leverage \$1.9 billion in private sector investment.

The Keystone Communities program encourages partnerships between the public and private sectors to support joint local initiatives that foster growth and stability in neighborhoods and communities, social and economic diversity, and a secure quality of life. The budget provides **\$15 million for these programs**, including Main Street and Elm Street as well as the Core Communities Development Projects.

The budget allocates **\$30 million for the Infrastructure and Facilities Improvement Program**. This program uses future state tax revenue increments to help pay for construction of hospitals, convention centers and hotels adjacent to convention centers, manufacturing facilities, and infrastructure for large retail and industrial projects. In 2014, this program generated \$3 for every \$1 invested.

The budget provides **\$798,000 to help prevent base realignment and closure, or BRAC**, actions by the federal government from affecting Pennsylvania's military communities. Base closures and the resulting job losses could have a significant impact on Pennsylvania's economy, with current military spending supporting 213,000 jobs and an overall economic impact of \$30 billion across the commonwealth.



The budget **reallocates \$125 million in existing Commonwealth Financing Authority resources to recapitalize Business in Our Sites**, a financing program that creates shovel-ready site jobs and \$1.8 billion in private investment. This initiative, funded through existing resources, will reallocate \$50 million from the First Industries Fund, \$24.5 million from the High Performance Building Program, and \$50.5 million from Building PA.

### Making Work Pay: Increasing the Minimum Wage

**A minimum wage increase to \$10.15 per hour supports local businesses, creates new jobs, and would boost state revenue by roughly \$60 million annually.** Pennsylvanians who work full time at the minimum wage earn \$15,080 annually, leaving them below the poverty level for a family of four and unable to afford basic necessities. The current minimum wage of \$7.25 purchases about one-quarter less than the minimum wage did in 1968, although low-wage workers now are better educated and more skilled. Employees have become more productive, increasing business efficiency and competitiveness, but wages have not kept pace with these productivity gains.

The 2016-17 Budget proposes to raise Pennsylvania's minimum wage from \$7.25 to \$10.15 per hour, while tying it to inflation to maintain its purchasing power over time. The increase would benefit more than 1.2 million Pennsylvania workers, many of whom are adults with families. Studies have consistently shown that an increase in the minimum wage does not result in job loss for low-wage workers.

### Creating Employment Opportunities for Pennsylvania's Young People

Studies show that employment among young people results in more positive labor market outcomes later in life. In 2015, the unemployment rate for Pennsylvania youth age 16 to 24 was 8.2 percent. Among African-American youth, the unemployment rate reached 13.2 percent which is more than two and a half times the overall statewide jobless rate. Even modest efforts in this space lead to significant positive impacts on Pennsylvania's future workforce.

Building upon summer jobs initiatives in 2015-16, the 2016-17 Budget calls for additional commitments for youth employment opportunities. In addition to supporting programs that facilitate employment for young Pennsylvanians, state government agencies can also act as employers themselves, both in Harrisburg and in offices across the state. The 2016-17 Budget includes a new summer employment pilot program at commonwealth agencies for low-income high school students in the summer of 2016, providing work experience, financial literacy education, preparation for the Civil Service Exam and exposure to various career pathways, especially within state government.

## Jobs that Pay (continued)

The 2016-17 Budget also provides \$2.5 million to revive the Pennsylvania Conservation Corps within the Department of Conservation and Natural Resources. Last operated in 2011, this program offers year-round training for youth and young adults through hands-on construction and other conservation and recreation-related work. Between 1984 and 2011, the Pennsylvania Conservation Corps had over 15,000 participants and completed over 1,300 projects in urban, suburban, and rural areas across the state.

### Training Pennsylvania's Workforce for Jobs That Pay

#### *Workforce Innovation and Opportunity Act*

The federal Workforce Innovation and Opportunity Act, signed into law in July 2014, seeks to strategically align workforce development programs and match employers with qualified skilled workers. The commonwealth's plan is the starting point for an unprecedented effort to bring together multiple state agencies, employers, and education and training providers to increase the number of high-paying jobs and better prepare Pennsylvanians for those jobs. The plan will achieve these goals by:

- Making job training more responsive to employers' needs by engaging with industry-driven workforce partnerships;
- Increasing the number of Pennsylvanians who have college degrees or industry-recognized skill credentials or certificates so that, by 2025, 60 percent of Pennsylvanians will possess those degrees, credentials, or certificates;



- Linking job training to career pathways, so that training leads not simply to any job, but to jobs that provide higher pay over time;
- Enabling youth to gain skills and work experience by providing opportunities for summer jobs, internships, apprenticeships, and other types of work-based learning; and
- Improving the ability of state agencies and training providers to understand where the high-paying jobs of the future will come from and the education and training to best prepare Pennsylvanians for those jobs.

#### *Investing in Workforce Partnerships*

To complement the provisions in the proposed Workforce Innovation and Opportunity Act State Plan, the 2016-17 Budget supports additional workforce development initiatives by providing funding for commonwealth training programs and workforce partnerships. Key among these are:

- **Industry Partnerships.** Pennsylvania's Industry Partnerships program, the first of its kind in the nation, enables companies in the same industry group or cluster to come together to identify their common skill needs and develop training programs to meet those needs. The budget nearly doubles funding for Industry Partnerships by providing **\$11.6 million** to enable workers to earn industry-recognized credentials and move up into better jobs. In 2015, Industry Partnerships held more than 2,800 trainings.
- **Vocational Rehabilitation.** The budget provides a **\$2 million increase** for vocational rehabilitation programs that help persons with disabilities prepare for, obtain and maintain employment. To the maximum extent possible, the commonwealth will emphasize job opportunities that pay competitive wages. The increased state funding will enable the state to maximize available federal funds, up to an additional **\$8 million**, to support these important programs.
- **IRC Manufacturing Initiative.** The 2016-17 Budget provides **\$12 million** to continue an initiative that combines the knowledge and experience of the state's Industrial Resource Centers with the technological advances of our higher education sector. The IRC Manufacturing Initiative will mobilize the talents of Pennsylvania's research universities to advance manufacturing technology and commercialization. It is anticipated that the state investment will be leveraged by a 3:1 ratio for federal and private investment.

# Government that Works

*Governor Wolf remains committed to improving efficiencies, streamlining government operations and reducing costs. He continues to change the way business is conducted to ensure taxpayer dollars are spent wisely, eliminate redundancies and improve customer interactions at all levels.*

This budget proposes the merger of the Department of Corrections and the Board of Probation and Parole, the elimination of the Public Employee Retirement Commission, and the relocation of the eHealth Partnership Authority to within the Department of Human Services. These steps continue the work Governor Wolf has taken throughout the course of the last year to ensure that the commonwealth truly is a government that works.

As one of his first acts in office, Governor Wolf signed Executive Order 2015-2, requiring the competitive procurement of commonwealth legal services. The new system provides high-quality legal counsel, while reducing costs and increasing transparency. Last spring in conjunction with the Treasurer and Auditor General, **the first open bid commonwealth contract for bond counsel resulted in a savings of over 35 percent to the taxpayer.**

In February 2015, Governor Wolf announced that Pennsylvania would expand Medicaid eligibility under the Affordable Care Act, allowing individuals who earn up to 138 percent of the federal poverty guidelines to obtain health care coverage. Since then, more than half a million Pennsylvanians from every county have enrolled in Community HealthChoices, Pennsylvania's Medicaid program. As a result, **Pennsylvania's uninsured population has dropped from 14 percent in 2013 to 8 percent today, and state General Fund costs have been reduced by more than \$500 million.**

By eliminating the Supplemental Nutrition Assistance Program asset test, the Department of Human Services saved millions in state funds and took steps to better protect Pennsylvania's most vulnerable. **While this change resulted in a savings of \$3.5 million annually, it also removed unnecessary administrative burdens and shielded the commonwealth from potential federal sanctions due to increased errors.**

Through increased staff training and information technology improvements, the Department of Human Services **reduced the food stamp error rate by 60 percent in six months to only 2.01 percent, avoiding approximately \$35 million in erroneous payments and ensuring that payments only are made to those who are eligible.** This reduction represents the largest percentage decrease in the error rate in a single year since records have been kept.

The Department of Human Services has also focused on employment opportunities for the people they serve. In 2015, more than 40,000 adults who were receiving TANF

benefits became employed. As a result of these efforts, **nearly 12,000, or 6.3 percent, fewer people are receiving Temporary Assistance for Needy Families benefits since January 2015.**



In fulfilling the governor's commitment to make health insurance more accessible and affordable for Pennsylvanians, the Insurance Department **reduced proposed insurance rates for plans under the Affordable Care Act by more than \$80 million.** A national study found that Pennsylvania has the fifth-lowest costs for the most popular individual health plans. One of the key factors in health care costs is competition among insurers. The administration continues to work to maintain a vibrant and competitive insurance market to provide consumers with more options and lower costs.

Last year, the commonwealth's **inmate population decreased by nearly 850 inmates – the greatest one-year decline in 40 years.** While there is still much work to be done, offenders are finally getting the treatment they need at an appropriate level of the criminal justice system. The Department of Corrections is also working to create efficiencies so it can focus its resources most effectively on education and career training, which ultimately keep people out of prison. Going forward, the department will take further steps to reduce corrections costs, including the merger with the Board of Probation and Parole.





The 2016-17 Budget will again focus on delivering services more efficiently, eliminating redundant and unnecessary programs, reducing costs and changing the way business is conducted to ensure taxpayer dollars are spent wisely.

### Improving Government Efficiency

#### GO-TIME

The Governor's Office of Transformation, Innovation, Management and Efficiency, or GO-TIME, is working to modernize government operations by assisting and encouraging agencies to embrace a culture of change and adopt private-sector strategies to make government more efficient and effective. With more than 200 separate projects under way, state agencies are on target to meet the governor's goal of achieving \$150 million in savings in 2015-16. GO-TIME continually monitors all projects commonwealth-wide to quickly identify and correct problems that may arise.

In 2016-17, GO-TIME will:

- Launch a commonwealth-wide continuous process improvement program to review agency operations to maximize efficiency and deliver better customer service;
- Pursue opportunities to partner with external entities to address challenges; and
- Develop recognition programs to incentivize and reward employee engagement in transformational activities.

Agencies and state employees continue to contribute ideas to make government work more efficiently while working on projects across the commonwealth to better engage employees, use technology to improve operations and provide vital services to a greater number of people.

GO-TIME's most successful projects in 2015-16 include:

- **Improving Procurement Strategies.** Commonwealth agencies spend more than \$3 billion per year on goods and services. By conducting a thorough examination of existing contracts, applying commercial best practices and reintroducing reverse auctioning to procurement, the Department of General Services will save a projected \$100 million in 2015-16.
- **Transforming Data Centers.** Faced with increasing demand for capacity, aging hardware and limited space, the Office of Administration is transitioning to a fully outsourced data center with the flexibility to increase and decrease capacity based on current demand. The new operating model has saved \$9.2 million in 2015-16 and is expected to save \$18.3 million in 2016-17.
- **Consolidating Mailrooms and Services.** The Department of General Services has begun to consolidate outgoing mail services for a number of agencies, generating savings from presorting, volume discounts, reductions in staffing and equipment and repurposing space previously used for mail activities. Presorting of outgoing mail alone saves taxpayers over \$34,000 per week.
- **Sharing Electronic Grants Software.** For years, agencies have attempted with varying levels of success to develop online systems for their grant funding programs. The budget allows agencies to leverage the Department of Community and Economic Development's electronic grants application rather than invest time and resources to develop custom applications.
- **Innovative Financing for Energy Savings.** Building on the success of the Department of Corrections, the Department of General Services is exploring opportunities at other commonwealth-owned buildings to finance efficiency projects with savings from reduced energy consumption.
- **Online Voter Registration.** This new portal allows eligible citizens to register to vote online and update information such as name, address or party affiliation, providing added convenience for citizens, greater engagement in the democratic process, as well as improved data accuracy and reduced costs for counties.
- **Regionalizing State Prison Purchasing.** By consolidating the purchasing of food and other items for smaller facilities, the Department of Corrections has been able to improve operational efficiencies and timeliness for purchases, which will save an estimated \$1.5 million this fiscal year.

## Government that Works (continued)

- **Reducing Inmate Medical Costs.** Following a comprehensive review of off-site trips for inmate medical treatment, the Department of Corrections identified several services that could be performed on-site or at nearby correctional facilities, reducing transportation costs. The department is also using its status as a covered entity under the Public Health Service Act to obtain HIV and Hepatitis C drugs at reduced prices.
- **Increasing Mobile Technology in the Field.** As a result of the savings and efficiencies that PennDOT has gained by developing mobile applications for inspectors working in the field, the budget provides for two additional mobile field technology pilot programs. The Department of Environmental Protection expects to double the productivity of its inspectors working to protect our air, soil and water by utilizing this technology. The Department of Agriculture will increase efficiency and communications through the use of mobile technology and cloud storage.
- **Using Technology to Improve Public Safety.** Prior to this year's record-breaking snowstorm, PennDOT outfitted over 700 of its plow trucks with vehicle location software in order to respond more quickly to changing conditions and reduce salt usage, saving an expected \$1.4 million over the next four to six years. The public can also monitor plow truck locations using the state's traveler information website.

### *Filing Deadline Change for Corporate Net Income Tax Filers*

The 2016-17 Budget proposes to align corporate filing deadlines in Pennsylvania with federal filing deadlines to create a more business-friendly filing process for businesses filing corporate tax returns. Under the current filing deadlines, required information from a flow-through business may not be available in time for taxpayers and practitioners to file timely and accurate corporate tax returns.

Beginning with the 2016 tax year, federal law extends the federal filing deadline for calendar-year corporate filers from March 15 to April 15. Because the Pennsylvania Corporate Net Income Tax return starts with the corporation's federal tax return information, the 2016-17 Budget proposes to similarly extend the Pennsylvania Corporate Net Income Tax return due date for calendar-year filers from April 15 to May 15.

The Pennsylvania Corporate Net Income Tax filing deadlines for fiscal-year filers remains 30 days after the corporation's federal tax return is due.

### *Pay for Success*

Initially proposed in the 2015-16 Budget, Pay for Success performance contracts provide an innovative strategy to finance proven programs through public-private partnerships on a straightforward proposition: taxpayers will only pay for services that get results and save money in the long

run. Payments are tied to the achievement of specific, pre-established performance goals that are set forth in the contract, and only occur after rigorous evaluation.

Having concluded a competitive procurement process that evaluated a wide range of potential projects, the commonwealth is beginning contract negotiations for Pay for Success projects that aim to reduce adult and juvenile recidivism. The adult recidivism project will help young men who have a high risk of reoffending to successfully reenter their communities by providing life skills education, transitional employment, full-time job placement, and post-placement services. The juvenile recidivism project will deliver a holistic community-based care model to youth who would otherwise face costly, and potentially harmful, out-of-home placements. In keeping with the Pay for Success model, payments on these contracts will be conditional on the achievement of specific, measurable outcomes that improve public safety in Pennsylvania and save taxpayers money.

### *Relocation of the eHealth Partnership Authority to the Department of Human Services*

The 2016-17 Budget proposes to move the eHealth Partnership Authority to the Department of Human Services to realize administrative savings and maximize federal dollars. Moving current personnel to the department would save approximately \$1 million annually, in addition to improving operations and timeliness.

### **Pension Improvements**

The 2016-17 fiscal year will mark the end of steep increases in state and local school district contributions to pay unfunded future pension obligations. State General Fund costs will increase by nearly \$500 million before beginning to level off in future years. While the General Assembly continues to debate further changes to benefit plans for current and future employees, several administrative and financial management initiatives should be implemented to further reduce future obligations. These plans are detailed below:

- Consolidate investment management operations among the funds that manage short-term and long-term investment assets;
- Reduce fees for investment management services;
- Establish a restricted receipt account to ensure that future pension obligations are fully funded; and
- Abolish the Public Employee Retirement Commission to eliminate redundancy.

This year the combined unfunded liability for the Public School Employees' Retirement System and the State Employees' Retirement System will rise above \$58 billion.

## Government that Works (continued)

However, that liability will now start to decline as the state begins to pay its full required contributions to both systems. While annual contribution increases will then moderate in future years, they will remain extraordinarily high for the next two decades, until the total liability is repaid.

Pension reforms previously enacted through Act 120 of 2010 have enabled us to reach this point. Significant benefit cuts for new employees reduced retirement benefits by 25 percent for new employees hired after the law was enacted. Collars have limited annual employer contribution increases since then. While manageable, these increases have created significant financial challenges for the state and school districts. The additional initiatives further detailed below can mitigate future financial pressures, allowing the commonwealth to meet its future funding obligations while protecting retirement benefits for state employees and teachers.

Consolidating investment management operations could save millions of dollars in staff costs, eliminate duplicative contracts with private investment managers, and exploit strategic strengths within the existing administrative systems. Continuing efforts to reduce management fees could save nearly \$200 million, annually shaving an estimated \$2.3 billion from our long-term unfunded pension liability. Eliminating the Public Employee Retirement Commission and its redundant administrative functions could further reduce staff costs and provide more timely information when requested by the General Assembly.

Establishing a restricted receipt account to pay required contributions is the surest way to guarantee we will fully fund our future obligations. Recent downgrades from bond rating agencies, based in part on past actions to delay or defer pension payments, have already increased our cost for future borrowing by \$10 million annually for each \$1 billion in new debt issued. Together these commonsense steps offer improved financial oversight for all investment decisions, provide millions of dollars in staff and administrative savings, and reduce our unfunded liability by nearly \$2.5 billion.

### Modernizing Pennsylvania's Wine and Spirit System

Pennsylvania's state-controlled Wine and Spirits system provides more than \$580 million in profit and tax revenue to the commonwealth and municipalities annually. While the current system continues to make strides to enhance customer convenience and profits to the commonwealth, the system can be further modernized. Next steps in 2016-17 will generate an additional \$100 million for the commonwealth. Moving forward, a bipartisan stakeholder working group will be convened to look at ways to further maximize the value of our liquor system and assess the multitude of proposals before policymakers.

## Making Pennsylvania Safer

### *Protecting our Farmers and Food Suppliers*

The governor, in July 2015, allocated and has preserved \$3.5 million for planning and response efforts related to Highly Pathogenic Avian Influenza. This restricted funding has been critical, allowing Pennsylvania's planning/response



work to continue uninterrupted. The commonwealth has purchased laboratory supplies and equipment, hired diagnostic staff for surge capacity and made technology investments, all with the goal of protecting our poultry farmers and consumers. These efforts have been appreciated by industry and acknowledged by our U.S. Department of Agriculture partners as essential to combating this foreign animal disease. The 2016-17 Budget provides \$3.5 million to continue these preparedness efforts.

### *Department of Corrections and Rehabilitation*

As proposed in the 2015-16 Budget, this budget provides for one department – the Department of Corrections and Rehabilitation – to ensure public safety and the successful transition of offenders back into the community.

The status quo is not working. One out of every ten crimes in the commonwealth is committed by a person who was previously incarcerated in one of our state prisons. This statistic illustrates a significant problem in the way we address incarceration and rehabilitation as two separate processes. While some progress has been made in reducing incarceration rates, that progress is slow and more and more money is being spent while the safety of the public remains at risk.

As one agency, the department will be able to eliminate redundancies, upgrade outdated technological

## Government that Works (continued)

processes, equipment and decision-making tools, improve communication and scheduling to reduce delays, increase field staff, streamline continuity of care and services, and employ new, research-driven strategies. Overall, with one comprehensive department, we will be able to reduce roadblocks to success, ensure the safety of the public, and increase savings to the taxpayers at the same time.

### *Improved Treatment of Inmates with Mental Health Issues and Problem-Solving Courts*

The Department of Corrections' mental health system recently underwent a major review as the U.S. Department of Justice and the Disability Rights Network of Pennsylvania have challenged mental health practices in our correctional system. To continue to address these concerns, this budget provides funding for additional personnel to lower staffing ratios for inmates with mental illness and provide them with the most appropriate treatment.

Additionally, this budget provides \$300,000 to the Pennsylvania Commission on Crime and Delinquency to award grants to counties to establish problem-solving courts where appropriate. These courts focus on the underlying chronic issues which lead to criminal behavior, such as substance use disorder, mental health conditions, homelessness and veterans-related issues.

### *State Police Cadet Classes*

Following the completion of four State Police Cadet classes beginning in 2015-16, this budget provides for three additional classes beginning in 2016-17. These classes will restore and maintain historic State Police Trooper filled complement levels with traditional retirement and turnover.

## Combating the Heroin and Opioid Epidemic

In the United States, 44 people die from an overdose of heroin or prescription opioids every day. Some data suggests that 80 percent of crime is driven by untreated or inadequately treated substance use disorder. Heroin and opioid addiction has become an epidemic across the country, and it is no different in Pennsylvania.

This year the administration has taken meaningful steps to address this crisis head on, including the issuance of a statewide standing order for naloxone. This medication, that can reverse an overdose caused by an opioid drug, is now available to families and friends of those suffering from the disease of addiction.

Additionally, the administration has moved forward with the development of the ABC-MAP prescription drug monitoring program, created the interagency Heroin Task Force, equipped all State Police vehicles and Capitol Police officers with naloxone, and supported the use of naloxone at schools across the commonwealth. These initiatives have saved nearly 600 lives in Pennsylvania.

To continue our efforts to combat this serious statewide epidemic, this budget provides more than \$34 million to treat more than 11,250 new individuals with substance use disorder. The Department of Human Services will provide 50 new Health Homes for individuals with substance use disorder, providing medication-assisted treatment and appropriate wraparound services, such as cognitive-based therapies.

These efforts will complement the support and ongoing efforts of numerous other agencies, including the Department of Drug and Alcohol Programs, Department of Corrections and Rehabilitation, Department of Health, Department of State, Insurance Department, and the Pennsylvania Commission on Crime and Delinquency.

## Caring for our Most Vulnerable

Efficient investments in the following areas will result in reduced long-term costs, the better delivery of services and a strong return on investment for taxpayers.

### *Implement Express Lane Eligibility for Health Care Coverage for Children*

Pennsylvania continues to be at the forefront of advancing health care options for residents across the state. In 1992, Pennsylvania established the Children's Health Insurance Program as a one-of-a-kind program designed to provide insurance coverage to children whose families earn too much to qualify for Medical Assistance, but could not afford to purchase private insurance. This innovative program aimed at improving health outcomes for children later became the model used by the federal government to develop its State Children's Health Insurance Program.

In 2015, the oversight of CHIP moved from the Insurance Department to the Department of Human Services through the passage of Act 84 of 2015. Every month, thousands of



## Government that Works (continued)

Pennsylvania children move between CHIP and Medicaid as family income changes. By locating CHIP oversight within the Department of Human Services, the state is better positioned to ensure that children who transition between both programs do so smoothly and that medical care is uninterrupted.

In addition to creating continuity of care, the move to the Department of Human Services will also allow the department to identify eligible children who are currently uninsured and connect them to appropriate health services. Making sure children are receiving quality health care services improves not just their quality of life but also academic and workforce outcomes.

By transitioning the Insurance Department's IT system to the Department of Human Services, the commonwealth can substantially reduce annual costs for maintenance, operations and upgrades that would be required to keep the system up to date with changing federal rules. **These administrative enhancements, combined with increased federal matching assistance, will reduce state costs for CHIP by more than \$100 million compared to 2014-15 costs.**

### *Improve Access to High-Quality Services for Infants and Toddlers*

This initiative builds on the governor's commitment to high-quality early learning services by increasing state funding by **\$10 million** to support more than 1,900 children and their families through evidence-based home visiting services. Home visiting provides comprehensive support services including parenting support, healthy growth and child development, support of social systems and strengthening families, practices to assist with the prevention of child abuse, and the early identification of children with special needs or developmental delays. In Pennsylvania, there are approximately 89,000 at-risk infants and toddlers. Current programs serve less than 15 percent of these children.

### *Increase Access to Child Care for Low-Income Working Families*

Access to child care is an integral part of families being able to start and keep employment. This initiative provides **\$12 million** to allow an additional 2,300 children currently on the Child Care Works Waiting List to receive care, so their parents can continue to work and support their families.

### *Reduce Waiting Lists for Individuals with Physical and Intellectual Disabilities.*

The 2016-17 Budget includes a total of **\$60.7 million** to reduce waiting lists and expand services to vulnerable Pennsylvanians. Included in those dollars are \$12.3 million to provide home and community based services to 850 individuals with intellectual disabilities and autism. This budget also includes **\$22 million** to fully annualize the

2015-16 program expansion for individuals with intellectual disabilities and autism and **\$93.4 million** to fully annualize the 2015-16 expansion of community opportunities for individuals in long-term living programs.

### *Restore Human Services Funding for Counties to Service More Individuals in the Community*

In 2012-13, human services funding for counties was cut by 10 percent, resulting in reductions in the number of people served, the elimination of programs and staff layoffs, in addition to undermining the progress made to move individuals into the community. Last year, the governor proposed a three-year restoration of these cuts. Assuming the bipartisan budget agreement begins these restorations, this budget proposes to take the next step toward restoring these cuts.

### *Continued Implementation of Community HealthChoices to Improve Health Outcomes*

In 2016-17, the Department of Human Services and Department of Aging will continue their combined three-year implementation of a managed long-term care program – Community HealthChoices – for older Pennsylvanians and adults with physical disabilities. This program will ensure that one entity is responsible for coordinating the physical health and long-term service and support needs of participants to improve care coordination and health outcomes while allowing more individuals to live in their community.

In January 2016, the commonwealth issued a request for proposals for Community HealthChoices Managed Care Organizations with the intention to make tentative awards in spring 2016, with the first stage of implementation in January 2017.



# General Fund Financial Statement

	Dollars in Millions		
	2014-15 Actual	2015-16 Available	2016-17 Budget
Beginning Balance.....	\$ 81	\$ 206	\$ 31
Adjustment to Beginning Balance.....	3	1	. . . . .
<b>Revenues:</b>			
Receipts.....	\$ 30,593	\$ 30,872	\$ 31,772
Proposed Revenue Changes.....	. . . . .	893	2,722
Enhanced Liquor Control Board Proceeds ...	. . . . .	. . . . .	100
One-time Revenue.....	. . . . .	5	. . . . .
Slots License Fees.....	. . . . .	50	. . . . .
Transfer to School Employees' Retirement Restricted Account .....	. . . . .	-280	-561
Less Refunds.....	-1,340	-1,355	-1,325
Prior Year Lapses.....	91	200	. . . . .
<b>Funds Available .....</b>	<b>\$ 29,427</b>	<b>\$ 30,590</b>	<b>\$ 32,740</b>
<b>Expenditures:</b>			
Total Appropriations.....	\$ 29,153	\$ 23,394	\$ 32,728
Supplemental Appropriations.....	. . . . .	7,165	. . . . .
Current Year Lapses.....	. . . . .	. . . . .	. . . . .
<b>Total State Expenditures.....</b>	<b>\$ 29,153</b>	<b>\$ 30,559</b>	<b>\$ 32,728</b>
Preliminary Balance.....	274	31	12
Transfer to Rainy Day Fund .....	-69 <sup>a</sup>	. . . . . <sup>b</sup>	-3 <sup>c</sup>
<b>Ending Balance.....</b>	<b>\$ 206</b>	<b>\$ 31</b>	<b>\$ 9</b>

<sup>a</sup> Under current law, the 25% transfer to the Budget Stabilization Reserve Fund for 2014-15 will be made by March 31, 2016.

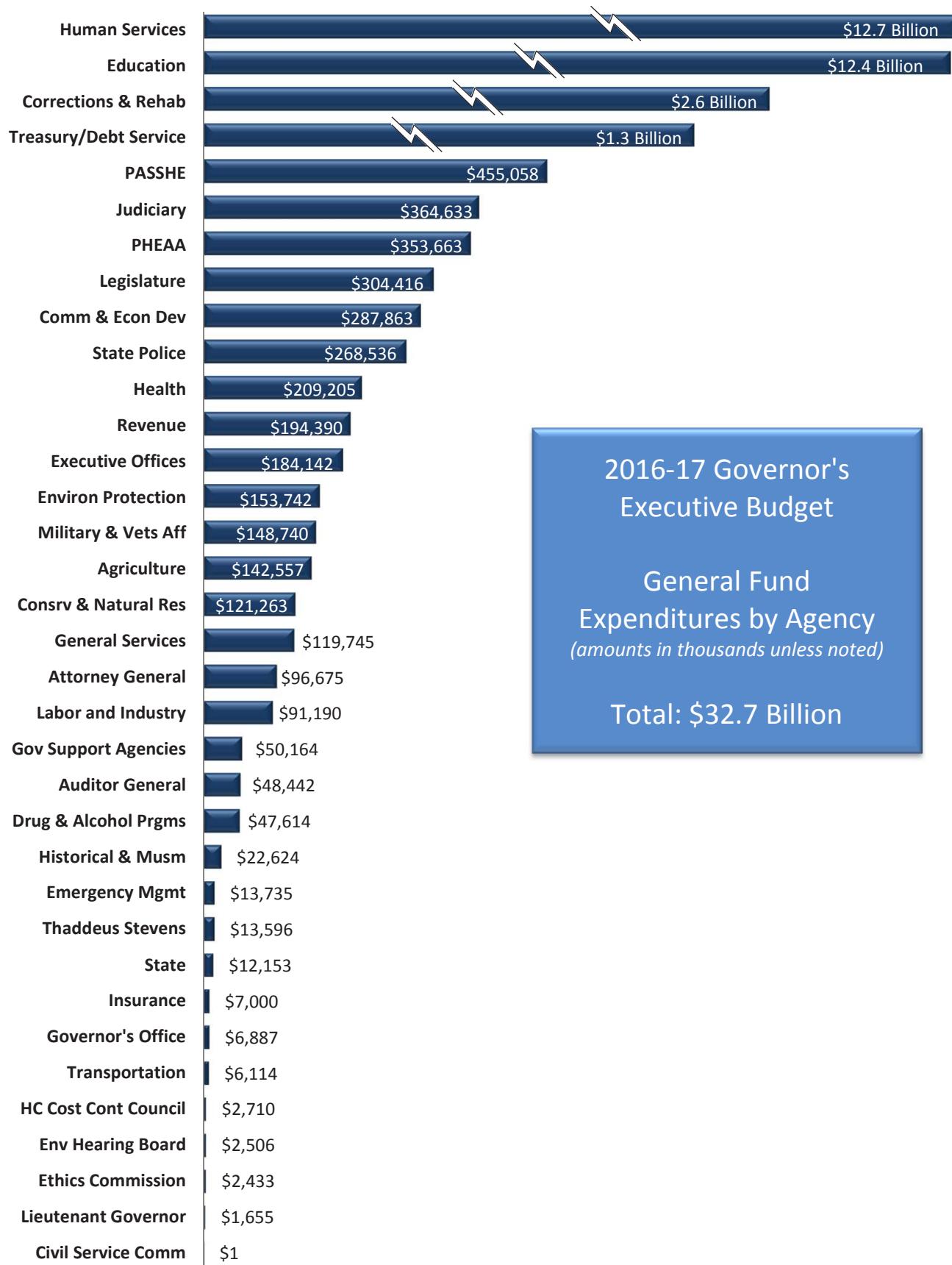
<sup>b</sup> This budget proposes to suspend the 25% transfer to the Budget Stabilization Reserve Fund for 2015-16.

<sup>c</sup> This budget proposes the reinstatement of the 25% transfer to the Budget Stabilization Reserve Fund for 2016-17.

# General Fund Revenue Sources

	Dollars in Millions		
Source	2014-15 Actual	2015-16 Estimated	2016-17 Estimated
Personal Income Tax	\$ 12,107.4	\$ 13,002.2	\$ 13,967.4
Sales and Use Tax	9,493.1	9,863.0	10,628.6
Corporate Net Income Tax	2,811.5	2,811.6	2,876.6
Capital Stock and Franchise Taxes	241.6	121.5	20.1
Gross Receipts Tax	1,261.8	1,237.8	1,214.4
Cigarette Tax	927.2	1,035.0	1,347.5
Other Taxes	2,649.7	2,872.2	3,393.8
Non-Tax Revenues	1,100.2	595.2	585.3
<b>Total Receipts</b>	<b>\$ 30,592.5</b>	<b>\$ 31,538.5</b>	<b>\$ 34,033.7</b>
Difference from prior year	1,985.3	946.0	2,495.2
Percentage difference	-0.1%	3.1%	7.9%

# General Fund Expenditures by Agency



2016-17 Governor's  
Executive Budget

General Fund  
Expenditures by Agency  
*(amounts in thousands unless noted)*

Total: \$32.7 Billion

# Motor License Fund

## INCOME

(Dollars in Millions)



Liquid Fuels Tax – \$1,766

Licenses and Fees – \$1,003

Other – \$47

## OUTGO

(Dollars in Millions)



Highways & Bridges – \$1,282

State Police – \$814

Local Subsidy – \$328

Other – \$207

Licensing & Safety – \$158

Debt Service – \$43

Total Income .....	\$2,816
Beginning Balance....	34
<b>TOTAL .....</b>	<b>\$2,850</b>

Total Outgo .....	\$2,832
Ending Balance .....	18
<b>TOTAL .....</b>	<b>\$2,850</b>





# Economic Outlook

The Pennsylvania Department of Revenue and the Office of the Budget are assisted in constructing the official tax revenue estimates by two main sources of economic forecast data: IHS Global Insight, Inc., of Lexington, Massachusetts, and Moody's Analytics of West Chester, Pennsylvania. Both firms are private economic forecasting and consulting firms that provide forecast data to the Commonwealth and other customers. Various projections from IHS Global Insight's national forecast, as well as a recent forecast produced by Moody's Economy.com, were used to assist in developing the revenue estimates in this document for the current budget year and future fiscal years. Analyses and discussion in this section, as well as the revenue estimates used in the budget, are based on a combination of data from each source and further analysis from the Department of Revenue and the Office of the Budget.

## The Forecast

Growth is expected to be solid for the U.S. in the coming year as consumer spending, housing, and government spending continue to expand. Growth in spending was 3% over the past year and is predicted to grow at a similar level in 2016. Housing activity is predicted to grow and remain strong for the next several years. After the recent congressional budget agreement, the expectation is that government spending will add to GDP growth in 2016. The growth rate for the US economy for 2016 is expected to be in the 2.5-3.0% range.

Table 1 and Table 2 are U.S. Macro Forecast projections from IHS Global Insight. Table 1 outlines the expected outlook for lower unemployment and an increase in GDP. Table 2 notes that over the next two years there is a 65 percent probability of moderate GDP growth, with an increase in consumer and business fixed investment. Table 2 also provides narrative for each economic indicator.

**Table 1**

Forecast Change in Key US Economic Indicators Annual Percentage Growth*				
Indicator	2014	2015p	2016p	2017p
Nominal GDP	4.1	3.5	4.6	5.1
Real GDP	2.2	2.4	2.7	3.1
Total Consumption	2.7	3.1	3.1	3.2
Corporate Profits (After Tax)	0.1	5.8	5.4	0.3
Unemployment Rate (Rate)	6.2	5.3	4.9	4.8
CPI	1.6	0.1	1.4	2.8
Federal Funds (Rate)	0.09	0.13	0.90	1.91

\* Assumptions in this chart, as well as other assumptions, are incorporated in the 2016-17 fiscal year revenue estimates.  
p=projected

## Pennsylvania Outlook

Pennsylvania benefits from a highly diversified economy with a mix of industries, and no one single employment sector dominates Pennsylvania. Since the turbulent diversification of the Pennsylvania economy during the 1970s and 1980s, 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.

Pennsylvania will benefit from the continued development of the Marcellus shale, and eventually the Utica Shale, natural gas deposits which will continue to provide jobs in the mining industry. The state may also attract jobs in industries that can benefit from the increase in natural gas supplies, either for low-cost energy or for inputs into chemical products. Low oil prices are not expected to have a big impact on natural gas exploration. The current growth phase in the Marcellus Shale production still mostly involves building infrastructure to service existing wells.

The Pittsburgh area has attracted interest as high-tech jobs such as software development have moved into the area. This, and the state's numerous high-quality research universities, is helping to mitigate job migration.

Pennsylvania is expected to add jobs at an annual average rate of 0.8 percent over the next several years. This growth is low as compared to other states but is based upon Pennsylvania's slow population growth. Population growth for Pennsylvania remains below the national average. Also, recent Census estimates show that Pennsylvania is lagging behind many other states in net migration. These two factors may limit the labor-force growth rate.

## Economic Outlook (continued)

Table 2

### U.S. Macro Forecast Projection from IHS Global Insight December 2015

#### Baseline Forecast (65% Probability)

<b>GDP Growth</b>	Moderate growth, 2.7% in 2016 and 3.1% in 2017
<b>Consumer Spending</b>	Moderately strong, up 3.1% in 2016 and 3.2% in 2017
<b>Business Fixed Investment</b>	Solid, up 5.3% in 2016 and 5.1% in 2017
<b>Housing</b>	Gradual improvement, with more than 1.3 million starts by the end of 2016
<b>Exports</b>	Mediocre, with 2.5% growth in 2016 and a 5.4% jump in 2017
<b>Monetary Policy</b>	The first federal funds rate hike occurred in December 2015, followed by several in succession, and the rate ends 2016 at 1.5%
<b>Credit Conditions</b>	Gradually easing
<b>Consumer Confidence</b>	Peaks in late 2016 and remains roughly stable
<b>Oil Prices (Dollars/barrel)</b>	Brent crude oil price averages \$54 in 2016 and \$65 in 2017
<b>Stock Markets</b>	The S&P 500 maintains steady growth, averaging 4.8% in 2016 and 3.2% between 2017-25
<b>Inflation (CPI)</b>	Headline CPI inflation picks up in 2016 as lower oil prices begin to reverse; core CPI inflation remains around 2.0% in 2016 and 2017
<b>Foreign Growth</b>	In 2016, Eurozone growth is expected to be around 1.7% and China's will slow to 6.3%
<b>U.S. Dollar</b>	The inflation-adjusted dollar appreciates 5.8% against the broad index of trading partners' currencies in 2016 and begins declining in the third quarter

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

Table 3

### Key Economic Indicators for Pennsylvania

<b>PENNSYLVANIA: Key Economic Indicators</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Real Gross State Product (in millions, 2009 dollars)	603,748	614,619	628,176	642,342	655,094	667,410
Real Gross State Product (percentage change)	1.5%	1.8%	2.2%	2.3%	2.0%	1.9%
Total Employment (in thousands)	5,790.2	5,844.9	5,897.5	5,943.4	5,980.0	6,014.7
Total Employment (percentage change)	0.8%	0.9%	0.9%	0.8%	0.6%	0.6%
Manufacturing Employment (in thousands)	567.3	567.7	563.5	567.0	571.9	575.9
Nonmanufacturing Employment (in thousands.)	5,223.0	5,277.2	5,334.0	5,376.4	5,408.0	5,438.8
Population (in thousands)	12,794.8	12,804.0	12,816.5	12,830.6	12,846.6	12,864.5
Population (percentage change)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Unemployment Rate (percentage)	5.6%	5.2%	4.8%	4.8%	4.8%	4.9%
Personal Income (percentage change)	3.6%	3.4%	3.8%	4.7%	4.7%	4.5%
<b>U.S. ECONOMY</b>						
<b>Real Gross Domestic Product (percentage change)</b>	2.2%	2.4%	2.7%	3.1%	2.7%	2.5%
<b>Employment (percentage change)</b>	1.9%	2.0%	1.6%	1.3%	1.2%	1.1%

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