

 pennsylvania

# 2014-15 Budget In Brief

Tom Corbett  
Governor



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COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF THE GOVERNOR  
HARRISBURG

THE GOVERNOR

February 4, 2014

To the People of Pennsylvania:

The past three years have provided the most significant fiscal challenges to any Pennsylvania governor and legislature in the modern era. A major economic downturn, limited revenues and the loss of federal stimulus funding used to fill previous funding gaps all contributed to the challenge of developing a spending plan that balanced the needs of Pennsylvanians and ensured no new taxes on families or businesses.

These years were lean. We made difficult choices. We cut costs through spending reductions and by eliminating unnecessary programs. We drove efficiencies throughout state government. We maintained support for the essential programs and services upon which our families and neighbors rely. We lived within our means. We balanced three budgets through fiscal discipline and becoming more efficient in the delivery of programs and services, rather than income tax increases.



We provided opportunities for our communities to revitalize their local economies. We focused on jobs. Companies have moved to Pennsylvania, put a foothold in our cities and towns and helped fuel our economic engine and set our course for prosperity.

We focused on educating our children, investing an additional \$1.2 billion in our education system above previous state spending. Equally important, we focused on the quality of education, ensuring our teachers are effective and added transparency and accountability for school administrators. We have given parents a tool they can use to evaluate how their schools are doing. These historic reforms have laid the foundation for more historic – and strategic – investments in our schools.

We focused on our fellow Pennsylvanians in need of services. We addressed waiting lists for home and community-based services for individuals with intellectual and physical disabilities and for older Pennsylvanians. We removed obstacles that kept children from getting affordable health care coverage.

Together, we made an historic investment and improvement in our infrastructure and mass transit systems that will make Pennsylvania safer. We focused on ensuring that Pennsylvania remained a safe place to live, work and travel. We invested in our emergency management, our police, corrections and criminal justice systems.

From better schools to safer roads, Pennsylvanians are enjoying the benefits of policies responsive to their best interests. From jobs to energy to trade and industry investment, Pennsylvania has become competitive again in a new global economy.

The 2014-15 Executive Budget addresses the concerns of all Pennsylvanians and continues historic investments in our schools, support for our job creators, and care for our neighbors in need.

This year we continue our commitment to teaching our youngest students, with more funding for pre-kindergarten in full and part-day programs. We have increased our investment in programs for students who require educational supports, based upon that student's level of need. Our kindergarten to 12th grade students will benefit from a new *Ready to Learn* Block Grant that places money directly into the classroom. And, we are making college more affordable with a *Ready to Succeed* scholarship program, opening the doors to higher education for thousands of students.

This budget features a renewed and strengthened investment in job training opportunities for Pennsylvanians, and it supports the continued resurgence of Pennsylvania's manufacturing, life sciences and technology sectors – so that industry comes back to the commonwealth and brings its jobs back home. Through targeted investments, the commonwealth will strengthen critical job-creating programs and partnerships that have a proven track record of results and support collaborations that utilize innovative programs to market Pennsylvania and foster new jobs in growing industries.

Pennsylvania is at the forefront of making quality health care accessible and affordable to all citizens. This budget continues my efforts to implement *Healthy Pennsylvania* and reform Pennsylvania's Medicaid program, giving all citizens a health care solution that meets their needs and not a one-size-fits-all approach conceived by Washington, D.C. Additionally, whether it be through the direct support of community health clinics and centers or the expansion of home and community-based options for individuals with disabilities and older Pennsylvanians, our investment ensures people can and will get the services they need where they want to get them.

This budget reflects the values and optimism that have guided us for the past three years and will serve as a roadmap for our commonwealth's future. By working together, we chart a course for unprecedented growth and prosperity. By working together, we open doors of opportunity. By working together, we create a better Pennsylvania.

Pursuant to Article VIII, Section 12 of the Constitution of Pennsylvania, and Section 613 of the Administrative Code of 1929 (71 P.S. Section 233), I am transmitting to your representatives in the general assembly my proposed budget for 2014-15.

Sincerely,

A handwritten signature in black ink that reads "Tom Corbett". The signature is written in a cursive, flowing style with a prominent loop at the end of the last name.

Tom Corbett

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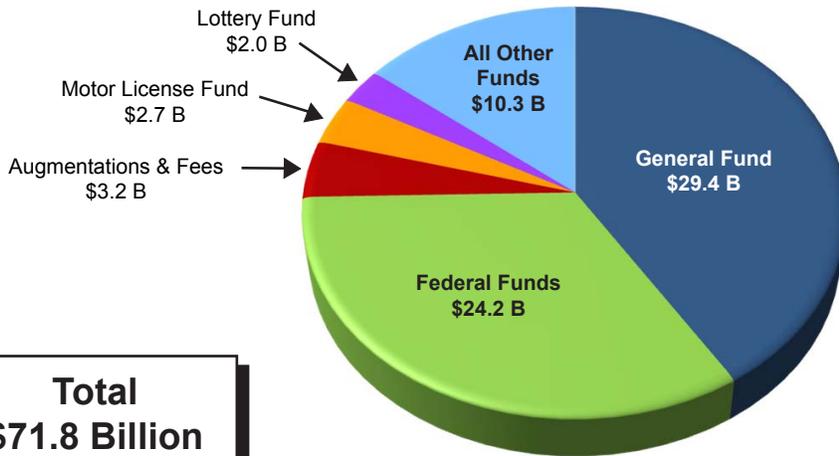
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For a complete copy of the ***Governor’s Executive Budget, Budget in Brief***  
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**[www.budget.state.pa.us](http://www.budget.state.pa.us)**

Click on Current and Proposed Commonwealth Budgets.

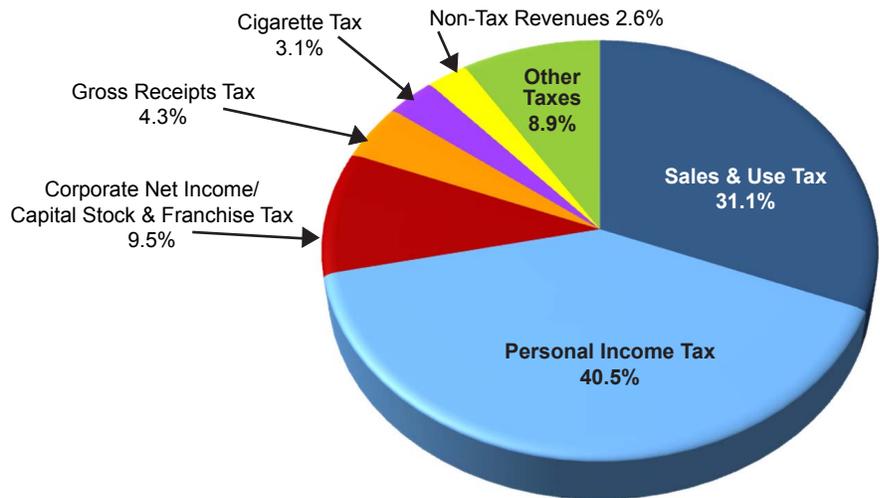
# Budget Overview



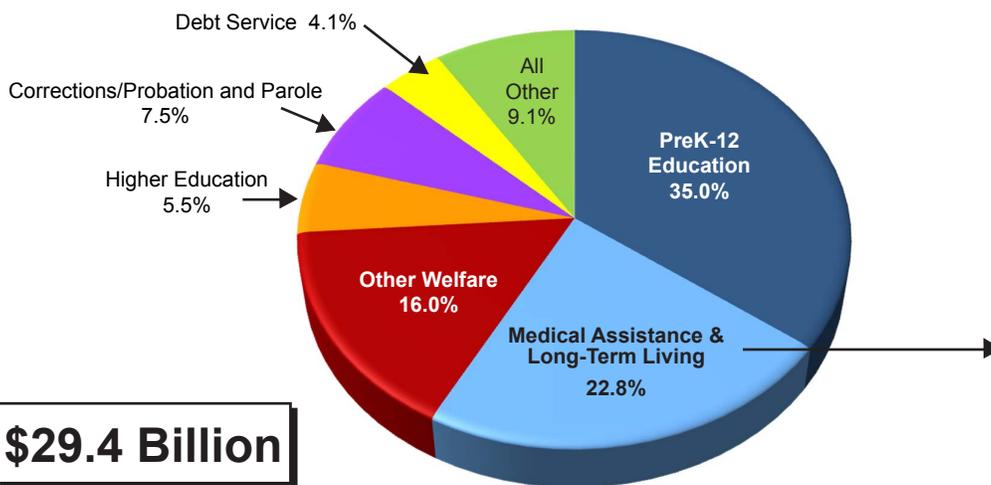
## Total Operating Budget

**Total  
\$71.8 Billion**

## General Fund Revenues



## General Fund Expenditures



**\$29.4 Billion**

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



# Budget Highlights

**Following three on-time balanced budgets, Governor Corbett's 2014-15 Executive Budget spending plan is driven by the values of prudent fiscal management and making strategic investments in core programs and services to build a stronger Pennsylvania.**

- The 2014-15 Governor's Executive Budget is balanced with no tax increases.
- The budget provides enhanced support for three key priorities:
  - ✓ Growing family-sustaining jobs with economic development investments to spur job creation and economic growth and continuing business tax reforms.
  - ✓ Ensuring our children are ready to learn by providing more than \$400 million in new available funding for school districts including a \$241 million *Ready to Learn* Block Grant.
  - ✓ Promoting a *Healthy Pennsylvania* with a comprehensive plan to increase access to quality and affordable health care for all Pennsylvanians.
- The General Fund budget is \$29.4 billion – an increase of \$925 million, or 3.3 percent, from 2013-14.
- The budget continues the phase-out of the Capital Stock and Franchise Tax. Beginning in 2016, the CSFT will be eliminated.
- Governor Corbett has reduced administrative spending by 10 percent over the last four years.
- Since Governor Corbett took office in January 2011, filled staffing levels have declined by more than 3,000 positions or nearly 4 percent. The 2014-15 budget increases the number of positions by 140. After accounting for 720 new positions to implement the Affordable Care Act, the budget eliminates nearly 600 other positions.
- The budget increases *Pennsylvania First* by \$5 million in support of the *JOBS1<sup>st</sup> PA* initiative, including a \$2 million increase to the WEDnetPA Job Training program to train an additional 10,000 employees and a \$3 million increase to the base program. Total funding for *PA First* is \$42.5 million in 2014-15.
- The budget provides \$341 million in total *Ready to Learn* funding, including \$241 million in new funding for school districts that focus on student achievement and academic success, and funding for the successful Accountability Block Grant that supports pre-kindergarten, full-day kindergarten and other proven educational programs at the current level of \$100 million.
- The budget provides \$25 million through the Pennsylvania Higher Education Assistance Agency for *Ready to Succeed* scholarships to make post-secondary educational opportunities more affordable to middle-income Pennsylvania families.
- The budget includes \$13.7 million for four new State Police cadet classes that will train 350 troopers.

# Strategic Investments for Pennsylvania

Over the past three fiscal years, the commonwealth has faced and met the challenge of maintaining adequate support for the core functions of government and popular government programs despite the loss of federal stimulus funds, limited revenue growth as the state emerged from the Great Recession and unprecedented cost drivers in mandatory spending areas, such as pensions, health care programs, debt and public safety spending. It did so by cutting costs through the elimination of unnecessary programs, reducing spending in others, and improving program efficiency across the board. The commonwealth also focused on job creation by restructuring its tax system and better aligning its economic development programs. These efforts have helped Pennsylvania recover more than 99 percent of its pre-recession job level and gain increased tax revenue. Through fiscal restraint and proactive public policy initiatives, the commonwealth has been able to maintain critical government services, spur economic opportunities and provide a foundation for prudent investment.

While economic forecasts for Pennsylvania are positive, the commonwealth's tax revenue growth is expected to be modest and less than the increase of its major budget cost drivers. For example:

- ✓ mandated state pension contributions to both the State Employees' Retirement System and the Public School Employees' Retirement System will increase by more than \$600 million;
- ✓ mandatory human service program costs will increase by more than \$340 million annually due to the reduction in the amount of funding the federal government provides for the Medical Assistance program;
- ✓ mandated costs under the Affordable Care Act will increase by \$297 million;
- ✓ public safety costs will increase by \$98 million; and
- ✓ annual debt service costs will increase by \$41 million.

Despite these fiscal challenges, this budget increases the state investment in education, economic development, and access to health care – investments which will result in greater economic and quality of life opportunities for Pennsylvania citizens. Additional investments in transportation infrastructure and water and sewer infrastructure are also included in this budget.

## Key Investments: *Ready to Learn* – Educational Excellence in Pennsylvania

The foundation for the investments in education proposed in this budget were laid over the past few years through initiatives targeted toward increasing accountability and transparency in our schools, and building stronger support for a higher-quality classroom experience for students.



The budget builds on the success of the Accountability Block Grant and creates a new *Ready to Learn* Block Grant totaling \$341 million that is focused on core areas beyond those addressed with the Accountability Block Grant. *Ready to Learn* will:

- ✓ ensure that students are achieving at grade level in reading and math by third grade;
- ✓ support STEM (Science, Technology, Engineering and Math) academic programs;
- ✓ provide supplemental instruction support to ensure that every student will be ready to learn by Grade 3; and
- ✓ support high-performing schools to assist struggling schools with improving their performance through school-to-school mentoring focused on replicating best practices for student achievement.

In addition, this budget provides increased investment in areas critical for and focused on student academic achievement, including:

- a \$10 million increase in early childhood education to provide 1,670 additional children access to quality pre-school;
- a \$20 million increase in special education to ensure students who need access to specialized learning opportunities are able to succeed – the first increase in special education funding in more than 6 years; and
- a new \$10 million grant program to support educators in further developing and implementing highly promising hybrid learning strategies.

## Key Investments: Economic Development

The commonwealth's economic development efforts keep the focus on job creation and support *JOBS<sup>1st</sup> PA* in two key areas: Make It In PA and Talented Workers. Budget initiatives will help sustain the continued resurgence of Pennsylvania's

## Strategic Investments for Pennsylvania (continued)

manufacturing, life sciences and technology sectors – so that industry returns to the commonwealth and brings its jobs back home – and feature a renewed and strengthened investment in job training opportunities for Pennsylvanians.

Prior budgets have not only held firm against the pressure for tax increases, but also have actually significantly improved Pennsylvania's business tax climate, making it more competitive overall and specifically creating an environment for small businesses and farms to thrive over generations.

The network and tools to support economic growth have been put in place including the Partnership for Regional Economic Performance (PREP) as the key support structure for businesses and *PA First*, the primary business attraction and retention tool for the commonwealth. The budget includes:

- a \$500,000 increase for PREP to continue efforts to offer Total Cost Ownership consulting for technical assistance to manufacturers that have moved manufacturing operations overseas and are interested in bringing the jobs back to Pennsylvania.

*PA First* continues to be an important tool to assist job creators looking to relocate or expand in Pennsylvania. Since the creation of *PA First*, more than 10,000 new jobs have been created and more than 40,000 jobs have been retained. This budget includes:

- a \$5 million increase for *PA First* to expand the capacity of Pennsylvania to compete for jobs and to enable WEDnetPA to train 10,000 additional employees.

The *Job Opportunity Business (JOB) Partnership Fund* is a private equity capital fund that provides an investment vehicle to channel private and corporate investments into projects and start-up opportunities. The commonwealth's investment will be matched by at least a 9:1 ratio with a minimum of 80% of the capital raised to be invested in



Pennsylvania companies and Pennsylvania-related projects, putting at least \$80 million in capital to work creating companies and jobs in Pennsylvania. *Discovered in PA*, *Developed in PA* funds as well as *PA First* will continue to support the *JOB Partnership Fund*.

To close the skills gap, the Pennsylvania Targeted Industry Program provides financial aid grants to meet workforce needs. To date, more than 1,200 students – including veterans – have enrolled in certification programs in high-demand industries such as energy, advanced materials and diversified manufacturing, and agriculture and food production. This budget increases grant support from \$5 million to \$6 million.

In total, the commonwealth spends more than \$470 million among its workforce development programs, all focused on providing a skilled worker for every job.

### Key Investments: Tourism

Second only to agriculture in terms of economic impact and job creation, Pennsylvania's tourism industry continues to thrive and be a major employer across the commonwealth. This budget provides an increase of \$1.25 million to bolster statewide travel, tourism and film-related economic development. This increase will support thousands of Pennsylvanians who work in the tourism industry and will assist in marketing the commonwealth rich history and attractions across the globe.



In addition, the commonwealth has a two-year investment strategy, *Enhance Penn's Woods*, that will provide more than \$200 million from a combination of capital funds, Growing Greener bond funds, Environmental Stewardship funds and other current revenue streams to upgrade facilities at our state parks and forests, further enhancing Pennsylvania as a destination for eco-tourism and outdoor recreation.

## Strategic Investments for Pennsylvania (continued)

### Key Investments: *Healthy Pennsylvania*

*Healthy Pennsylvania* is a comprehensive plan to increase access to quality, affordable health care for all Pennsylvanians. The budget provides additional funding to increase access to health care services for those Pennsylvanians living in underserved and rural areas, including providing additional resources to help increase the number of health care providers, specifically primary care providers, serving those communities.

*Healthy PA* will establish a more effective and coordinated long-term care and support system to ensure quality health care for older Pennsylvanians and persons living with disabilities. The budget continues investment in services for our most vulnerable in care settings that best meet their needs.



The commonwealth's Medicaid program serves as a health care safety net for our most vulnerable citizens. However, maintaining the program as currently structured places an increasingly high burden on Pennsylvania taxpayers costing hundreds of millions of dollars in new funding every year. *Healthy PA* includes a common-sense approach to reforming Pennsylvania's Medicaid program in order to provide affordable, quality health care in a fiscally sustainable manner, while increasing access for 500,000 newly eligible individuals through a Private Coverage Option.

This budget includes \$125 million in savings from the implementation of reforms to the Medicaid program and the Private Coverage Option within the *Healthy PA* Medicaid waiver.

### Public Policy Initiatives Addressing Cost Drivers

This budget proposes the following important public policy initiatives to address the key cost drivers in the commonwealth's General Fund budget:

***Healthy Pennsylvania.*** This initiative will reform the commonwealth's delivery of its critical health care programs. *Healthy PA* will enhance access to quality health care for Pennsylvania's citizens and keep medical costs in check. *Healthy PA* will address the requirements of the

federal Affordable Care Act in a manner that is best suited to Pennsylvania's demographics and characteristics.

**Pension Reform.** The pension reform proposal is financially sustainable, provides more equitable risk-sharing and does not affect current retiree or active employee benefits. With reforms and benefit modifications, the commonwealth will be able to manage annual pension contributions and address the solvency of the pension systems. Without significant pension reform, the commonwealth's budget is on a path in which pension costs will consume a significantly growing share of the overall budget, forcing cuts to core government functions on which our citizens depend.

**Commonwealth Pension Contributions.** The budget transfers \$225 million of private equity investments and cash reserves from the Tobacco Settlement Fund and the Health Venture Investment Account to the Public School Employees' Retirement System as partial payment of the employer contribution.

**Unclaimed Property or Escheats.** This initiative reduces from five years to three years the amount of time unclaimed property is held by outside institutions to gain \$150 million in one-time revenue.

**Non-Impact Drilling.** Allowing limited drilling activity on commonwealth-owned lands, where drilling can occur without the need for additional surface impacts, will generate \$75 million of immediate revenue and substantial additional royalty revenue in the future.

**Debt Management.** Significant changes in debt management will bring new debt issuance and debt retirement into greater alignment. The budget maintains capital funding levels at prior year levels at approximately \$200 million in Public Improvement Projects for commonwealth-owned buildings and facilities, and continues to focus on the priority infrastructure needs of the commonwealth. Higher education project releases for the State System of Higher Education and for the University of Pittsburgh, Penn State University, Temple University and Lincoln University will remain at approximately \$160 million a year.

Without prudent fiscal management over the past few years, Pennsylvania would have had even greater difficulty dealing with the challenges it experienced in 2013-14, including the federal government shutdown, natural weather disasters, and federal and state court decisions adversely affecting the commonwealth's budget, as well as the cost pressures it faced when developing the 2014-15 budget. This budget maintains fiscal discipline and proposes public policy initiatives to enable additional strategic investments in education, economic development and health care for Pennsylvanians.

# Pension Challenge and Reform

The pension challenge continues to be a key topic of discussion in nearly every corner of the commonwealth. It is a question on the minds of many, and increasingly on the minds of Pennsylvania taxpayers who ultimately bear the cost of the system through their tax dollars. All of these stakeholders, while representing diverse interests, recognize the budget crisis facing Pennsylvania – that the commonwealth’s growing pension obligations are crowding out funding for core governmental programs.

The fiscal reality is that absent meaningful structural pension reform, the state’s budget is on a path that will force a choice between either fully funding pension obligations or making cuts to the core functions of government on which our citizens rely.

Just as it impacts at the state level, this same dynamic plays out in nearly every school district across the commonwealth. Increasing pension contribution obligations claim a greater share of school district budgets, crowding out funding for education, whether it is direct classroom instruction, extra-curricular activities, facilities and maintenance, and will ultimately put pressure on districts to increase property taxes.

Failure to enact meaningful reform also impacts the commonwealth’s ability to attract and keep job-creating businesses within its borders and will negatively affect the credit rating of the commonwealth, costing taxpayers more money in increased interest rates for bond issuances.

## Unfunded Pension Liability

Pennsylvania has two public pension systems: the Public School Employees’ Retirement System (PSERS) and the State Employees’ Retirement System (SERS). The two systems’ total liabilities (future retirement benefits to be paid) exceed the total assets of the combined plans by \$50 billion. This unfunded liability is essentially a state debt owed to state workers and public school employees.

Actuarial valuations show that SERS is 58.8 percent funded, while PSERS is 63.8 percent funded. When the valuations of the two systems are combined, they are approximately 62 percent funded. A healthy funding ratio is considered 80 percent. The funded ratios of the two systems are expected to continue to decline in the next several years.

## Growing Total Commonwealth Employer Contributions

To fund the current cost of pension benefits as well as the unfunded liability, the commonwealth’s total required employer contribution rates have and will continue to rise quickly. The employer contribution rate for SERS, which was just 5 percent of payroll in 2010-11, is now 16 percent, and will grow every year, reaching 31 percent in 2017-18.

Likewise, the PSERS rate, which stood at 5.64 percent of payroll in 2010-11 is at 16.93 percent for the current fiscal year and is expected to increase every year, reaching 30 percent in 2018-19. Both rates will remain at these high levels for several years before retreating.

These numbers are staggering, but the pain imposed on the state budget comes in the year-over-year cost growth as pension contributions claim a growing share of the General Fund and of available new revenues (detailed in the next section). Costs have more than doubled in the past two years. In the 2014-15 fiscal year, total contributions are expected to increase by more than \$600 million.

## Commonwealth Employer Contributions as a Share of Available Revenue

Rising pension costs will claim a significantly larger share of new revenues, threatening to overwhelm the budget and the vital programs and services that it funds. If pensions alone were the only area of state government growing, the challenge posed here might be less acute. But, pensions are not the only area of state government seeing substantial cost growth.

As pension costs grow significantly for the next several years without pension reform, the future is likely to include program and service reductions as more and more pressure is put on the commonwealth’s budget.

## A Framework for Success

The pension reform plan must recognize that the commonwealth cannot correct its pension problem all at once. Significant changes are required to make real and lasting pension reform. In the short term, the plan includes measures to help smooth contribution increases that are consuming an ever-growing portion of the General Fund, while addressing key components of a successful pension reform plan.

Key components of successful pension reform:

**Protect Retirees and Employees.** Retirees will see no change to their current benefits; they will continue to collect the benefits they have earned. Pension benefits earned by current employees will not be affected by pension reform. What employees have earned, they will keep. For future employees, pension reform must provide for an adequate retirement benefit.

**Equitable Risk Sharing.** Currently, taxpayers bear the full financial risk of the pension plans. Pension reform should reduce the risk on Pennsylvania’s taxpayers by offering a defined contribution, 401-k style retirement plan for future employees.

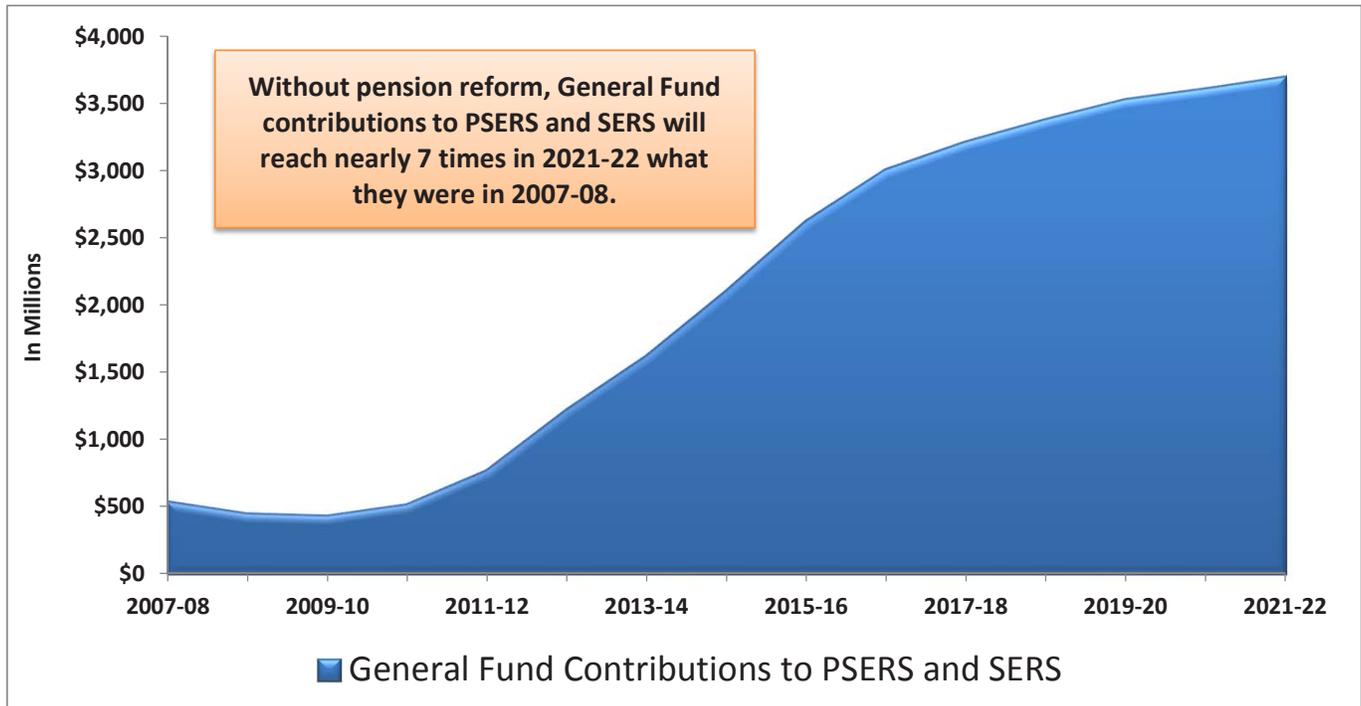
# Pension Challenge and Reform

**Reduce the Burden on School Districts.** The escalating pension costs affect school districts' ability to fund critical education programs. Increasing pension contributions means fewer dollars make their way to direct classroom instruction, essential to promoting student achievement. Pension reform should provide relief to our school districts at a sustainable rate, while paying for the relief through reforms.

**Address the Unfunded Liability.** Pension reform cannot "kick the can down the road". Shifting the problem into the future exacerbates the already significant unfunded liability, making it more difficult to achieve a financially sustainable pension system.

With pension reform, employer contributions to the pension systems can be reduced, providing much-needed budgetary relief without "kicking the can down the road". This relief can be achieved through reducing the current pension collars to 2.25% in 2014-15, then increasing the collars by 0.5% per year until the collars reach 4.5% or the collared rate is equal to the annual required contribution rate. Savings generated by reducing the pension collars will be more than paid for by enacting pension reform. The budget funds operating appropriations at levels consistent with reducing the pension collars to 2.25%.

It is critical to the financial sustainability of the pension system to implement a pension reform plan that includes the key components discussed here, provides budgetary relief and that does not "push off" the costs to the future.



This chart illustrates the historic General Fund contributions to PSERS and SERS and shows how the contributions will continue to grow without a change to the status quo.

# JOBS<sup>1st</sup> PA – Pennsylvania is Working

Creating and maintaining an environment in which good, family-sustaining jobs can grow continues to be a top priority to ensure we are building a stronger Pennsylvania. Through meaningful tax, legal and regulatory reform, and strategic investments and partnerships over the past few years, the foundation for Pennsylvania's financial future as an economic powerhouse has been renewed. In 2012, *JOBS<sup>1st</sup> PA* was launched as a comprehensive roadmap to economic recovery that harnessed the state's resources and talents to prioritize private-sector job creation and retention. *JOBS<sup>1st</sup> PA* is further enhanced with a set of initiatives that will ensure Pennsylvania is built to advance. This budget continues building on the successes of *JOBS<sup>1st</sup> PA* by focusing in two core areas: Make It In PA and Talented Workers.

## Make It In PA

Pennsylvania's location, available energy and talented workforce are second to none. Fueled by recent growth in advanced manufacturing and transportation, along with lower-cost energy due to an abundance of natural gas from Marcellus shale and nuclear energy, Pennsylvania's manufacturing economy is poised to make a comeback as a global leader. Home of the second largest energy field in the world, Pennsylvania's vast energy portfolio - including oil, natural gas, coal, nuclear and renewables – has positioned the commonwealth as the Keystone to our nation's domestic energy future. Pennsylvania is strategically located with an expansive multimodal system comprised of ports, rails and airports that is critical to economic vitality. Additionally, Pennsylvania has an extensive network of overseas offices and representatives that cover more than 70 international markets, and is one of the fastest growing states for foreign direct investment. This has enabled Pennsylvania to attract businesses like Foxconn - the world's largest manufacturer of electronic components – and companies like Apple – which has committed to a \$30 million expansion investment and the creation of 500 jobs along with a \$10 million R&D partnership with Carnegie Mellon University.

*JOBS<sup>1st</sup> PA* is placing Pennsylvania a step ahead of the competition in bringing the jobs home – good, family-sustaining jobs back to Pennsylvania. This budget, through targeted investments, will support *JOBS<sup>1st</sup> PA* and strengthen critical job-creating programs and partnerships – with businesses small and large – that have a proven track record of results. This budget provides continued funding for the *Discovered in PA, Developed in PA* program, which moves ideas more quickly from the lab to the marketplace. This program has assisted in retaining and creating more than 300 jobs by working in concert with Pennsylvania's universities and the Department of Community and Economic Development.

This budget supports the *Joint Opportunity Business (JOB) Partnership Fund*, a private equity capital fund seeded

with \$10 million from the PA First program beginning in the 2013-14 budget. The *JOB Partnership Fund* will provide an investment vehicle to channel private dollars into Pennsylvania projects and deals that ordinarily would receive only grants and low-interest loans from the commonwealth. The *JOB Partnership Fund* is an example of public-private partnership at its best; the commonwealth's investment will be matched by at least a 9:1 ratio with private capital which will assist in attracting job creators to locate in Pennsylvania.

Nearly 43,000 jobs were either retained or created in 2013 through the efforts of the Partnership for Regional Economic Performance (PREP), a statewide network of local partners that work together to deliver vital assistance to job creators across ten Pennsylvania regions. To continue these efforts and to ramp up services, this budget will provide an increase of \$500,000 to PREP to offer Total Cost Ownership consulting for technical assistance to manufacturers that have moved manufacturing operations overseas and are interested in bringing the jobs back to Pennsylvania. The PREP partners will utilize their expertise to assist with supply chain development and supplier scouting for manufacturers.

In addition, the recently enacted transportation plan will invest an additional \$2.3 billion annually into the state's transportation system, creating approximately 50,000 new jobs.

Pennsylvania's tourism industry continues to thrive and be a major employer across the commonwealth. This budget provides an increase of \$1.25 million to bolster statewide travel, tourism and film-related economic development. This increase will support thousands of Pennsylvanians who work in the tourism industry.

To harness these important initiatives and market Pennsylvania to the rest of the world as a great place to do business, the Governor's Action Team connects Pennsylvania with employers looking to relocate. The team is broadening its focus to help more small businesses by expanding their employer outreach efforts, which has led to the creation of 3,400 jobs and \$300 million in pledged private investments utilizing *PA First*. Team efforts from all job creators have generated 30,415 new jobs and retained 52,343 jobs with more than \$4.8 billion in pledged private investments during this administration.

To support the Governor's Action Team in reaching foreign markets and bringing employers back to Pennsylvania, this budget increases funding by more than \$600,000 for *World Trade PA*. This critical funding will expand promotion of Pennsylvania exports in key international markets and attract foreign investment. The budget also increases funding for Pennsylvania's ability to market itself through a \$1.1 million increase to the *Marketing to Attract Business* program. This program is the single source for promotional,

advertising and event management efforts to communicate to site consultants, business executives and entrepreneurs, throughout the nation and around the world, why job creators should start, expand or relocate their businesses in Pennsylvania.

### Talented Workers

Nothing is more critical to ensuring the economic strength of Pennsylvania and to securing good paying jobs for Pennsylvanians than the development of a well-educated and trained workforce. Currently, the commonwealth spends more than \$470 million on job training programs and on services to assist job seekers find employment. This budget increases that investment in workforce training. In addition, increased state funding has been directed to public education over the past three budgets – because every dollar invested in our children and adult learners is a dollar invested in the commonwealth's future. The initiatives within this budget and *JOBS<sup>1st</sup> PA* combined with other efforts to more strategically align education and training with job openings, will place Pennsylvania a step ahead of the competition as a top performing state and global leader.



This budget increases *PA First* by \$5 million, of which \$2 million will be allocated to the WEDnetPA Job Training program to train 10,000 additional employees. *PA First* continues to be an important tool to assist job creators looking to relocate or expand in Pennsylvania. Since the creation of *PA First*, more than 10,000 new jobs have been created and more than 40,000 jobs have been retained. To close the skills gap, the Pennsylvania Targeted Industry Program is providing financial aid grants to meet workforce needs which will increase with this budget from \$5 million to \$6 million. To date, grants have been awarded to more than 1,200 students – including veterans – enrolled in certification programs in high-demand industries such as energy, advanced materials and diversified manufacturing, and agriculture and food production.

There is great value in joining forces between the PREP Regions and the Local Workforce Investment Boards, who partner with the Department of Labor and Industry and the Department of Community and Economic Development. In order to facilitate partnerships, *JOBS<sup>1st</sup> PA* and the Reemployment Fund will provide \$2 million in incentive grants to spur synergy and direct contact between job seekers and local job creators.

This budget establishes *Jobs for All*, an on-the-job-training reimbursement program, as a direct financial incentive to promote the hiring of young people with disabilities. The first phase of this initiative will help employers successfully hire up to 1,000 young people with disabilities. This new injection of \$1 million in state funds will allow for the drawdown of an additional \$3.8 million in available federal funds, allowing the Department of Labor and Industry's Office of Vocational Rehabilitation to serve more people with disabilities seeking employment.

With increased investments in this budget strengthening Pennsylvania's library system, it will enable key partnerships to continue and expand between the 700 libraries and 65 *PA Careerlink*® centers strategically located across the commonwealth that provide job seekers with resources in their local communities, such as resume writing assistance, literacy programs and access to the Internet.

*JOBS<sup>1st</sup> PA* will continue to connect job seekers and employers through *JobGateway*™. *JobGateway*™ is a free, user-friendly job matching website that helps Pennsylvanians looking for work find opportunities from over 165,000 real-time postings, find training for positions they have interest in and find out what industries are hiring in their region. To continue to meet the needs of Pennsylvania's job seekers, the system will be expanded to include online training programs, such as decision-making/critical thinking courses, and a self-directed skills assessment to help identify potential occupations or skill deficiencies.

This budget invests in programs that promote the continued resurgence of Pennsylvania's manufacturing, life sciences and technology sectors, strengthen critical job-creating programs and partnerships that have a proven track record of results, and support collaborations that utilize innovative programs to market Pennsylvania and foster new jobs in growing industries.

### Other Budget Highlights

**Ben Franklin Technology Partnership** – \$14.5 million for this proven, innovation-focused economic development program.

# Ready to Learn – Education Excellence in Pennsylvania

Every Pennsylvania child deserves access to a high-quality public education. Over the past three years, the *Ready to Learn* education agenda has been transforming Pennsylvania's public education system. Through targeted initiatives, *Ready to Learn* has increased accountability and transparency in our schools, infused stronger educational resources into our classrooms and focused financial resources on supporting students at all levels. As a result, Pennsylvania students are ready to learn, ready to grow and ready to succeed as they prepare to embrace the challenges of the 21<sup>st</sup> century global economy.

This budget builds upon the strengths of Pennsylvania's public education system and supports the next phase of *Ready to Learn* by making additional strategic investments in Pennsylvania's students and classrooms.

## Increasing Accountability

This budget continues the investments necessary to support educator and principal evaluation systems and high-quality professional development.

The State Board of Education has adopted academic standards, known as Pennsylvania Core Standards, to better align today's classroom instruction with the demands of a global economy. To make sure that students master essential subjects, such as algebra, biology and English language arts, Pennsylvania has transitioned to the Keystone Exams. This budget provides funding for continued implementation and support of the Keystone Exams.

## Ensuring Transparency

The School Performance Profile was launched in 2013 to give parents, students, taxpayers and educators an overview and in-depth analysis of how each public school is performing. This budget continues funding for the School Performance Profile.

## Providing Support

The Department of Education has developed a unique portal of educational resources called the Standards Aligned System. This portal provides educators, parents and students access to thousands of evidenced-based and standards-aligned resources to support the varied and specific needs of PreK-12 classrooms and students. The portal is closely aligned with the School Performance Profile to ensure that schools can readily access curriculum information to support teaching areas in need of improvement. This budget continues to provide funding for the Standards Aligned System portal.

## New Strategic Investment in Pennsylvania's Children and Schools

This budget marks the next phase of the *Ready to Learn* agenda, which includes new strategic investments in the entire continuum of public education, and also builds upon

the solid foundation of increased accountability, improved transparency and greater support for students, educators and schools. Investments supporting the *Ready to Learn* agenda include:

### Early Childhood Education.

- **Pre-K Counts.** This budget invests an additional \$10 million in Pre-K Counts – providing approximately 1,670 additional pre-school age children with the opportunity to attend high-quality early learning programs. Pre-K Counts programs have consistently delivered high-quality pre-kindergarten education to Pennsylvania's three- and four-year-olds who are at risk of academic failure. This investment builds upon the \$46.5 million in additional early childhood education funding provided through various programs that reached an additional 11,000 children over the past three years.



- **Early Learning Challenge Grant.** In 2013, Pennsylvania was awarded \$51.7 million through the federal Race to the Top Grant program to support high-quality early childhood education programs across the commonwealth. This budget allocates \$15.8 million in federal funds to support:
  - ✓ **Kindergarten Entry Inventory** provided to schools at no-cost to better understand the needs of children upon kindergarten entry.
  - ✓ **Governor's Institutes** designed to enhance teaching practice for Pre-K to Grade 3 educators in a variety of early learning topics, including early literacy, math proficiency and STEM (Science, Technology, Engineering and Math) education.
  - ✓ **Early Childhood Education Community Innovation Grants** designed to increase family support and engagement, develop stronger relationships between early childhood education programs and school districts, and strengthen the network of community organizations that serve families with young children. Grants will be targeted to communities that serve low-performing elementary schools.

**Kindergarten to Grade 12.** This budget strategically invests \$351 million in Pennsylvania's public schools through the following initiatives:

- **Ready to Learn Block Grant.** This budget provides \$341 million in total funding, including \$241 million in new *Ready to Learn* funding for school districts that focus on student achievement and academic success, and funding for the successful Accountability Block Grant that supports pre-kindergarten, full-day kindergarten and other proven educational programs at the current level of \$100 million. As part of this budget, schools will be able to use their Accountability Block Grant for purposes allowed in the *Ready to Learn* Block Grant, ultimately increasing flexibility for school districts and improving learning outcomes for students.

A total of \$240 million of the *Ready to Learn* block grant funds will be allocated through a student-focused funding formula to enhance early learning opportunities for students and provide resources for schools to innovate at the local level. School districts will be able to use their *Ready to Learn* allocation for programs, such as:

- ✓ **Ready by 3<sup>rd</sup> Grade** to ensure that every student in Pennsylvania is performing at grade level in both reading and math by third grade;
- ✓ **STEM Education** to support STEM-related academic programs, which are the key growing job fields of the future; and
- ✓ **Supplemental Instruction** support to enable more flexibility for schools to provide customized instruction for students.

The remaining component of the *Ready to Learn* Block Grant, **The Governor's Expanding Excellence Program**, will provide \$1 million in competitive grant funds for Pennsylvania's high-achieving public schools to analyze and publish best practices that have proven to increase student achievement. Grants will be awarded to high-achieving schools that are willing to share their strategies and techniques and support schools throughout the commonwealth as they strive to increase student achievement through these identified best practices.

- **Pennsylvania Hybrid Learning Grants.** This budget provides \$10 million in new funding for competitive grants to support schools in developing and implementing new educational strategies in the classroom that customize a student's education and improve student performance. Hybrid learning, which blends traditional and digital learning, has proven successful in K-12 education across the country. This funding enables 100 schools in Pennsylvania to implement a hybrid learning model that best meets the needs of their students.

- **Governor's Schools of Academic Excellence.** This budget provides \$350,000 to support three Governor's Schools in agricultural sciences, STEM education and engineering. This initiative will provide talented high school students a unique summer opportunity on a college campus to engage in hands-on experiences working with leading experts and educators in each of the three fields. Each program will stress innovation and cutting-edge instruction in professional and laboratory settings.
- **Special Education.** The budget provides an additional \$20 million for special education, distributed through a funding formula that allocates funding to school districts based on three categories of students receiving special education, to ensure that students who need access to specialized learning opportunities are able to succeed. This is the first increase in funding for special education in six years.

**Ready to Succeed.** This budget provides \$25 million through the Pennsylvania Higher Education Assistance Agency for *Ready to Succeed* scholarships, to make post-secondary educational opportunities more affordable to middle-income Pennsylvania families. The *Ready to Succeed* program will be merit-based and will enable eligible students to pursue two-year or four-year post-secondary degrees at any Pennsylvania college, university or technical school.

Every dollar invested in Pennsylvania students is a dollar invested in the commonwealth's future. This budget builds upon the historic education investments made over the last three years, strengthens Pennsylvania's public education system and supports the next phase of *Ready to Learn* by making additional strategic investments in Pennsylvania's students and classrooms.

### Other Budget Highlights

**Early Intervention** – \$9.5 million increase to serve approximately 1,500 additional children from ages 3 through 5.

**PA Assessment** – \$4.6 million, or 8.6 percent, increase to support existing state and federally mandated tests.

**Higher Education Programs** – Over \$1.6 billion in total funds, including \$411 million in the Pennsylvania Higher Education Assistance Agency.

# Healthy Pennsylvania and Enhancing Human Services

## Increasing Access to Quality, Affordable Healthcare Improving the Health and Well Being of Pennsylvanians

### HEALTHY PENNSYLVANIA

*Healthy Pennsylvania* is a comprehensive plan to increase access to quality, affordable health care for all Pennsylvanians. *Healthy PA* has three key priorities: improving access; ensuring quality; and providing affordability. Despite the fiscal challenges continuing to face state governments across the nation, this budget advances the *Healthy PA* plan while also reaffirming a commitment to preserving the safety net for individuals with intellectual and physical disabilities, seniors, children and low-income families. In advancing *Healthy PA* while funding needed services for our most vulnerable citizens, the budget strikes the appropriate balance between the need to transform our health care system into a sustainable system, focused on quality outcomes and increases access to care and the need to improve the delivery and accessibility of human services.

The budget provides resources to serve more individuals who have been waiting to access needed services, and will accelerate the modernization of the delivery of health care throughout the state – improving access to quality, affordable health care. Additionally, this budget will continue efforts to ensure that Pennsylvanians in need of long-term care services and supports are served in the appropriate setting and have the ability to stay at home or in the community.

### Improving Access

To improve the overall health of the commonwealth, all Pennsylvanians need to have access to quality, preventive health care services. This budget provides additional funding to increase access to health care services for those Pennsylvanians living in underserved and rural areas.

**Increasing Support for Community Health Centers and Health Care Clinics.** The budget doubles the investment made last year to provide a total of \$8 million in critical funding to Pennsylvania’s community-based healthcare clinics. Funding will be dedicated to sustainable medical clinics, including those that focus on providing mental health services. The \$4 million new investment will fund four additional health centers and clinics in addition to 36 existing health centers and clinics.

**Expanding Access to Primary Care Services in Rural and Underserved Areas of Pennsylvania.** The budget increases funding by \$4 million to provide loan repayment assurance to health care practitioners who commit to working in primary care in rural and underserved areas of the commonwealth. This funding will provide an additional 70 awards to physicians, dentists and other practitioners. Physicians tend to stay and practice in the areas in which

they complete their residency. To help address the growing primary care shortage in our rural areas, the budget provides funding to create 12 new residency slots for medical school graduates.

### Ensuring Quality

A core component of *Healthy PA* is developing a more effective and coordinated long-term care and support system to ensure quality health care for older Pennsylvanians and persons living with disabilities. The budget meets this objective through continued investment in services for our most vulnerable in care settings that best meet their needs.

**Expanding Services for Older Pennsylvanians and Individuals with Physical Disabilities.** The budget provides a significant investment in home and community-based services for both older Pennsylvanians and individuals with physical disabilities to ensure continued access for those currently being served and to serve new individuals on the waiting lists.



The budget provides an increase of \$41.5 million in General and Lottery funds to serve:

- ✓ an additional 1,764 older Pennsylvanians through the Medicaid Home and Community-Based Aging waiver (\$11.6 million);
- ✓ an additional 800 individuals in the LIFE program (\$9.4 million);
- ✓ an additional 500 individuals on the Options waiting list (\$1.1 million);

## Healthy Pennsylvania and Enhancing Human Services (continued)

- ✓ an additional 204 individuals who transfer from the Department of Public Welfare's Attendant Care Program at age 60 (\$1.4 million); and
- ✓ an additional 1,599 individuals with physical disabilities in community settings through the Services to Persons with Disabilities Waiver and the Attendant Care Waiver (\$18 million).

### Providing Affordability

Pennsylvania's Medicaid program is intended to serve as a health care safety net for our most vulnerable citizens, but maintaining the program as currently structured places an increasingly high burden on Pennsylvania taxpayers costing hundreds of millions of dollars in new funding every year. Currently, one in six Pennsylvanians – more than two million people – are on Medicaid, and the costs now account for 23 percent of the entire General Fund budget for the commonwealth. In total, Pennsylvania taxpayers and the federal government spend approximately \$22.3 billion annually on Medicaid. The *Healthy PA* plan includes a common sense approach to reforming Pennsylvania's Medicaid program in order to provide affordable, quality health care in a fiscally sustainable manner.

### Healthy PA - Reforming Pennsylvania's Medicaid Program

To ensure that the commonwealth can provide sustainable access to quality, affordable health care coverage well into the future, *Healthy PA* includes common sense reforms to Pennsylvania's Medicaid program and increases access to health care coverage for more than 500,000 low-income residents through its Private Coverage Option. This innovative plan promotes healthy behaviors, improves health outcomes, increases personal responsibility, and ensures that benefits match health care needs.

The *Healthy PA* plan realigns the current Medicaid adult benefit package into two commercial-like benefit packages that are consistent with national standards for coverage and also builds in positive incentives for healthy choices and personal responsibility. Individuals under the Private Coverage Option and reformed Medicaid program will also have reasonable cost sharing, either consistent with nominal copayments that currently exist in the Medicaid program, or a nominal premium that would replace existing copayments except for non-emergency use of the emergency room. The cost-sharing design is pending federal waiver approval. Being pro-active and healthy is also encouraged in the Private Coverage Option and the reformed Medicaid program as premiums may be reduced by seeking certain preventative services and screenings as well as work. Job training and career assistance are also available to provide more individuals with tools and pathways to independence.

The budget includes \$125 million in savings from the implementation of the Medicaid Reforms and Private Coverage Option within the *Healthy PA* Medicaid waiver. The budget assumes approval of the waiver by the federal government.

### ENHANCING HUMAN SERVICES

The budget provides the Department of Public Welfare with the necessary resources to enhance and strengthen its commitments to serve Pennsylvania's most vulnerable individuals by improving and expanding access to essential human services programs including:

**Early Learning Challenge Grant.** In 2013, Pennsylvania was awarded \$51.7 million through the federal Race to the Top Grant program to support high-quality early childhood education programs across the commonwealth. This four-year grant supports the commitment to providing high-quality early learning opportunities for Pennsylvania's youngest students.

The budget allocates a total of \$15.8 million in federal funds between the Department of Public Welfare and the Department of Education. The Department of Public Welfare's allocation will be used to:

- ✓ Enhance access for children with high needs to high-quality early learning and development programs;
- ✓ Develop stronger relationships between early childhood education programs and school districts;
- ✓ Develop strategies focused on increasing family supports and engagement; and



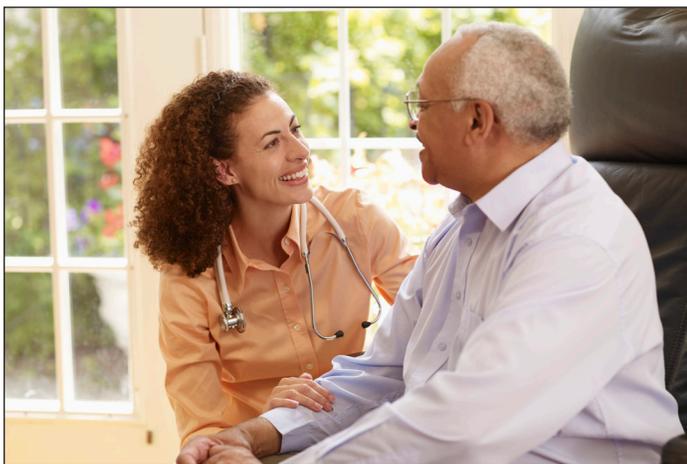
- ✓ Improve access and delivery of high-quality professional development for early learning educators.

**Expanding Services for Individuals with Intellectual Disabilities and Autism.** The budget includes an additional \$23.5 million to provide home and community-

## Healthy Pennsylvania and Enhancing Human Services (continued)

based options for an additional 1,200 individuals with intellectual disabilities and autism. This increase enables an additional 700 young adults who are graduating from the special education system to continue to live independently in the community. It also enables an additional 400 individuals who are on the emergency waiting list to access crucial services to keep them in their home and community. In addition, this funding expands services in the Autism waiver to an additional 100 individuals.

**Moving Individuals From Institutional Care to Community-Based Care.** The budget includes an additional \$5.4 million to increase community placement for individuals currently in state mental hospitals and state intellectual disability facilities. This funding enables the transition of 90 clients from state mental hospitals to progressive mental health treatment in home-like settings and 50 clients from state intellectual disability facilities to home and community-based settings.



**Domestic Violence and Rape Crisis.** The budget provides \$2.2 million, a 10 percent increase in funding, for services dedicated to victims of sexual and domestic violence.

**Child Care Assistance and Improving the Quality of Child Care Programs.** The budget provides \$15 million in federal funds to allow an additional 2,895 children currently waiting for services to receive child care assistance.

The investments made in this budget to increase access to essential health care services, preserve safety net programs for our most vulnerable individuals and ensure access to services in underserved areas of the state continues the *Healthy Pennsylvania* goal to increase access to quality, affordable health care coverage for all Pennsylvanians.

### Other Budget Highlights

**Child Welfare Services** – \$1.5 billion in total funds to provide child welfare services to children and youth in need of care and protection.

**Medical Assistance Services** – \$16.9 billion in total funds to provide inpatient, outpatient and capitation services for nearly 2.3 million Medical Assistance recipients.

**Long-Term Living Services** – \$5.4 billion in total funds to provide home and community-based services as well as nursing home care to persons with disabilities and older Pennsylvanians.

**PENNCARE** – \$295.4 million in Lottery Funds to provide an array of home and community-based services for older Pennsylvanians.

**Intellectual Disabilities: Community Programs** – \$2.5 billion in total funds to provide home and community-based services to more than 53,000 individuals with intellectual disabilities.

**PACE/PACENET** – \$183.6 million to provide prescription drug coverage for 270,775 older Pennsylvanians.

**Early Intervention Services** – \$211.2 million in total funds to provide early intervention services to 37,800 children from birth to age 3.

**Autism Services** – \$36 million in total funds to support individuals living with autism spectrum disorder, including home and community-based services for approximately 600 adults.

**Child Care Services** – \$744.7 million in total funds, including \$15 million in federal funds to provide services to 2,895 additional children.

**Child Advocacy Centers** – \$2 million to provide funding for Child Advocacy Center operational support and expansion.

**Children's Health Insurance Program** – \$461.9 million in total funds to provide health insurance coverage for over 203,000 uninsured children.



# Criminal Justice and Enhanced Public Safety

Ensuring the safety of all Pennsylvanians is a primary responsibility of state government. The Pennsylvania Commission on Crime and Delinquency, the Department of Corrections, the Pennsylvania State Police and the Pennsylvania Board of Probation and Parole have reprioritized evidence-based guidance in public safety policy and planning to address crime prevention, safely reduce the prison population and improve community reintegration methods. The budget provides critical funding for public safety programs to enable collaborative, multi-agency best practices to keep Pennsylvanians safe and ensure that a strong foundation exists for safeguarding future generations. In addition, the budget ensures that the commonwealth is equipped to respond to severe weather, natural disasters and other events that may put Pennsylvanians at risk.

## Budget Highlights

**Corrections** – The State Correctional Institutions increase is \$78.3 million, of which \$72.3 million is for contractual salary and benefit increases.

The budget provides:

- \$10 million to enhance the treatment of inmates with serious mental illness. This investment adds 112 positions in the psychiatric and nursing fields and will help to complete operational changes necessary to better equip institutions to administer care to inmates with serious mental illness.
- \$8.1 million for the Corrections and Probation Total Offender Repository (CAPTOR) system.
- \$10 million in savings through the use of rebates from the Special Pharmaceutical Benefits Program. These rebates will be used to mitigate the cost of AIDS treatment for inmates.
- \$2.5 million in savings as a result of increased federal participation for inpatient medical care for inmates through the Healthy PA program.

**Probation and Parole** – The budget provides \$154.5 million in total state funds, a \$13 million, or 9.1 percent increase. The budget provides funds for additional parole agents and other staff needed to maintain caseload ratios for an increased parole population. In addition, funding is included to support an additional position in the victims assistance program.

**State Police** – The budget continues to meet public safety needs through providing resources for comprehensive State Police services in communities within their primary jurisdiction and assistance to municipal police departments.

The budget provides:

- \$13.7 million for four classes, consisting of 350 cadets, to begin in 2014-15.

**Military and Veterans Affairs** – The budget includes \$1 million to the Veterans Trust Fund to provide services to veterans in need of assistance. When combined with \$330,000 of contributions from special plate fees and license and registration check-offs, the commonwealth will provide \$1.5 million in programming from the Veterans Trust Fund in 2014-15.

- **Veterans Outreach Services** – continues \$2.3 million for this program.

**Juvenile Justice Reinvestment Initiative** – The budget provides \$4.5 million in increased funding (\$2.5 million to the Juvenile Court Judges' Commission and \$2 million to the Pennsylvania Commission on Crime and Delinquency) to expand evidenced-based violence prevention and intervention programs targeted at reducing recidivism for high-risk juvenile offenders.



# Transportation – Infrastructure and Transit Investments

In 2013, the most comprehensive piece of state transportation legislation in decades was enacted. The transportation plan will invest an additional \$2.3 billion annually into the state's roads, bridges, transit and multimodal transportation systems by its fifth year of implementation, creating approximately 50,000 new jobs. Speed to market is critical to manufacturers bringing in raw materials and moving finished products to consumers. A secure transportation future will help commonwealth efforts to encourage manufacturers to return operations to Pennsylvania as well as create additional manufacturing opportunities in the state.

The following table shows additional transportation infrastructure and transit investments by funding sources and mode of transportation through the 2017-18 fiscal year.



## Transportation Infrastructure and Transit Investments (in thousands)

	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Motor License Fund</b>					
State Highways & Bridges	\$ 190,015	\$ 553,127	\$ 807,728	\$ 1,011,252	\$ 1,273,662
Municipal Payments	27,838	105,946	148,355	176,248	207,242
Local Bridge	7,000	13,000	20,000	21,000	30,291
Pennsylvania Turnpike	12,641	43,161	61,090	71,575	86,192
Boat Fund Tax Refund	1,700	4,600	5,100	5,700	6,300
Dirt & Gravel Roads	–	30,000	30,000	30,000	30,000
County & Forestry Bridges	1,806	6,166	8,727	10,225	12,313
<b>Multimodal Fund</b>	30,000	97,000	138,000	138,000	144,000
<b>Transit</b>	60,000	355,000	441,000	442,000	497,000
<b>Total Additional Funding</b>	<b>\$ 331,000</b>	<b>\$ 1,208,000</b>	<b>\$ 1,660,000</b>	<b>\$ 1,906,000</b>	<b>\$ 2,287,000</b>

### Stretching Current Funding Further

- **Next Generation.** This PennDOT initiative seeks to modernize and optimize processes, policies, and procedures to strengthen operations, shorten project delivery and improve internal and external customer service while cutting costs and realigning current resources.
- **Mapping the Future.** With this initiative, PennDOT, the Turnpike Commission, and the Department of Conservation and Natural Resources collaborate to identify overlapping business activities, streamline operations and eliminate duplicative efforts and expenses.

The **Next Generation** and **Mapping the Future** initiatives lead to the more efficient use of tax dollars and will generate \$60 million to \$85 million in ongoing annual savings, which will be used for transportation projects throughout the commonwealth.

This budget provides reliable and sustainable funding for transportation infrastructure improvements that will facilitate the safe and swift flow of people, commodities and resources among communities and throughout the world.

# General Fund Financial Statement

Dollars in Millions

	2012-13 Actual	2013-14 Available	2014-15 Budget
Beginning Balance.....	\$ 673	\$ 541	\$ 216
Adjustment to Beginning Balance.....	. . . . .	5	. . . . .
<b>Revenues:</b>			
Receipts .....	\$ 28,647	\$ 29,116	\$ 30,540
Refunds .....	-1,250	-1,275	-1,310
Prior Year Lapses.....	<u>188</u>	<u>251</u>	<u>. . . . .</u>
Funds Available .....	\$ 28,258	\$ 28,638	\$ 29,446
<b>Expenditures:</b>			
Total Appropriations.....	\$ 27,717	\$ 28,492	\$ 29,419
Current Year Lapses.....	<u>. . . . .</u>	<u>-70</u>	<u>. . . . .</u>
Total State Expenditures.....	<u>\$ 27,717</u>	<u>\$ 28,422</u>	<u>\$ 29,419</u>
Preliminary Balance.....	\$ 541	\$ 216	\$ 27
Transfer to Rainy Day Fund .....	<u>. . . . .</u> <sup>1</sup>	<u>. . . . .</u> <sup>2</sup>	<u>-7</u>
<b>Ending Balance</b> .....	<u><u>\$ 541</u></u>	<u><u>\$ 216</u></u>	<u><u>\$ 20</u></u>

<sup>1</sup> Act 71 of 2013 suspended the 25 percent transfer to the Budget Stabilization Reserve (Rainy Day) Fund for the 2012-13 fiscal year.

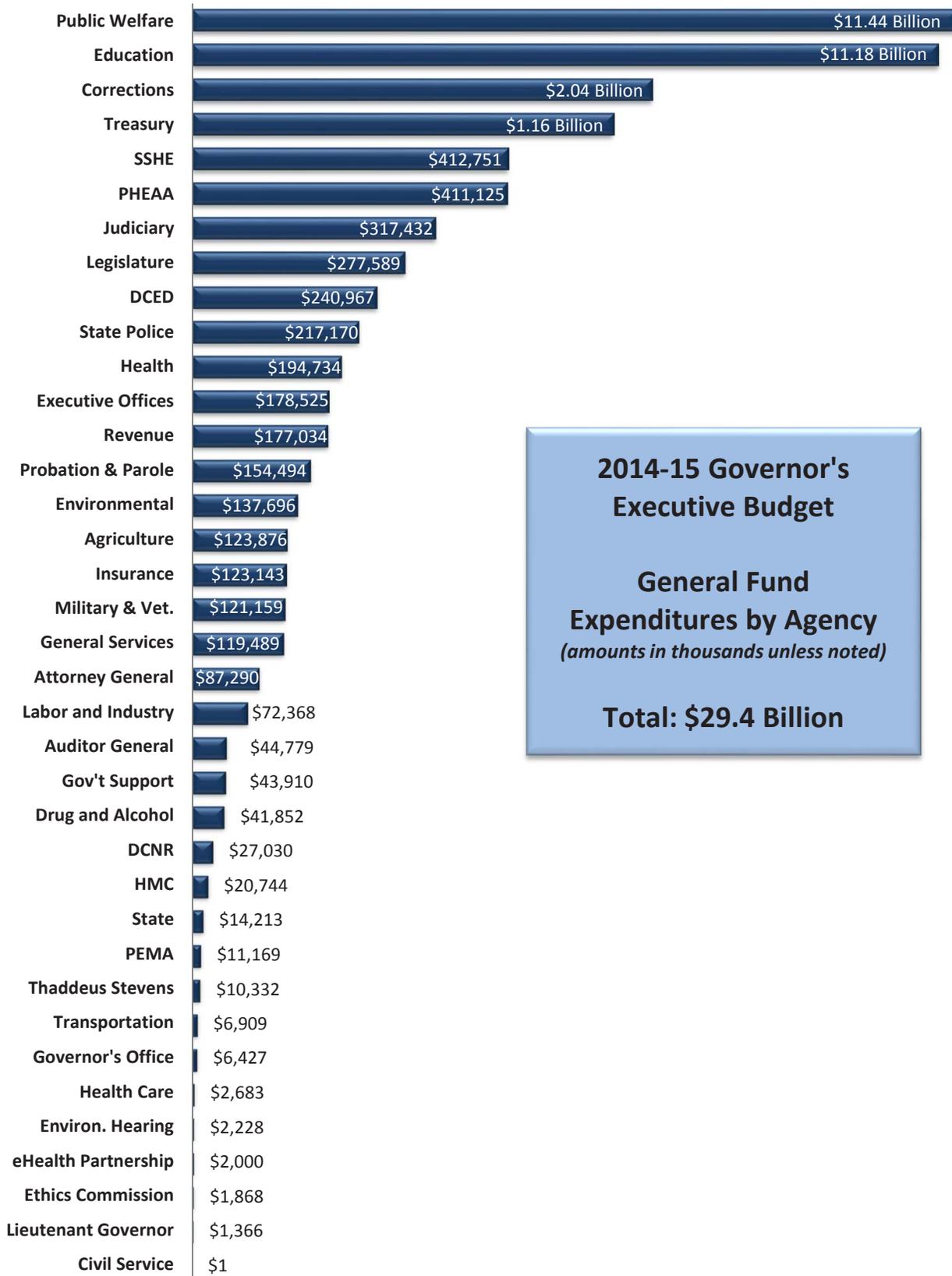
<sup>2</sup> This budget proposes the suspension of the 25 percent transfer to the Budget Stabilization Reserve (Rainy Day) Fund for the 2013-14 fiscal year.

# General Fund Revenue Sources

Dollars in Millions

Source	2012-13 Actual	2013-14 Estimated	2014-15 Estimated
Personal Income Tax	\$ 11,371.2	\$ 11,717.2	\$ 12,365.6
Sales and Use Tax	8,893.7	9,194.4	9,504.6
Corporate Net Income Taxes	2,423.4	2,572.3	2,561.5
Capital Stock and Franchise Taxes	602.2	389.8	328.2
Gross Receipts Tax	1,306.3	1,262.8	1,307.2
Cigarette Tax	1,024.1	979.0	954.7
Other Taxes	2,446.2	2,514.6	2,731.1
Non-Tax Revenues	579.8	485.8	787.2
<b>Total Receipts</b>	<u>\$ 28,646.9</u>	<u>\$ 29,115.9</u>	<u>\$ 30,540.1</u>
Difference from prior year	\$ 968.9	\$ 469.0	\$ 1,424.2
<i>Percentage Difference</i>	3.5%	1.6%	4.9%

# General Fund Expenditures by Agency



# Motor License Fund

## INCOME

(Dollars in Millions)



Liquid Fuels Tax — \$1,566

Licenses and Fees — \$943

Other — \$59

Total Income .....	\$2,568
Beginning Balance....	105
<b>TOTAL .....</b>	<b>\$2,673</b>

## OUTGO

(Dollars in Millions)



Highways & Bridges — \$1,378

State Police — \$666

Local Subsidy — \$261

Other — \$194

Licensing & Safety — \$135

Debt Service — \$19

Total Outgo .....	\$2,653
Ending Balance .....	20
<b>TOTAL .....</b>	<b>\$2,673</b>



# Economic Outlook

Economic forecasts are a key element in constructing the 2014-15 state budget revenue forecasts. The forecasts also help the commonwealth project likely levels of demand for many public goods and services. The Department of Revenue and the Office of the Budget construct the official tax revenue estimates with the assistance of IHS Global Insight, Inc. and Moody's Analytics.

## Current Economic Conditions

The national economic expansion continued in 2013. The Bipartisan Budget Act of 2013 provides relief from the spending sequester and eliminates the chance of another government shutdown in the near future, which should contribute to economic growth over the next two years. This, along with other positive economic indicators, has helped to produce a strong 2013 third quarter real GDP growth estimate of 4.1%. The improved third quarter economic fundamentals continued into the fourth quarter and may result in an upward revision to IHS Global Insights, Inc.'s 2014 forecast. The federal government shutdown in October 2013 was expected to have subtracted approximately 0.3 percentage points from fourth quarter 2013 GDP growth.

GDP has rebounded following the Great Recession and is forecast to grow approximately 3% annually over the next five years as shown in Chart 1.

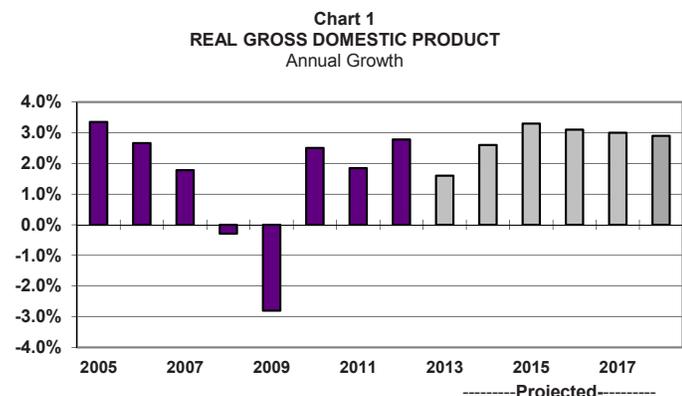
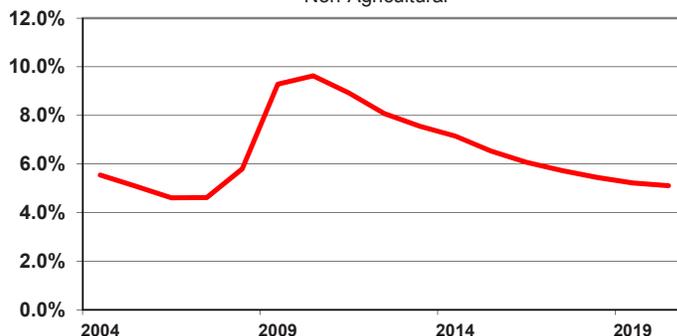


Chart 2 shows that the year-end U.S. unemployment rate peaked in 2010, with the highest rate of 10.1% occurring in October 2010. It has since decreased by 3% to just under 7% and is projected to drop below 6% in 2016. Nationally, the number of people unemployed peaked at nearly 15.4 million in October 2009. As of November 2013, there were nearly 4.5 million fewer people unemployed compared to the October 2009 peak.

Although the U.S. unemployment rate has decreased, the majority of the jobs recovered or created – six out of ten – are at the low end of the wage scale according to the U.S. Labor Department. Consumer spending increased modestly during the first half of 2012 at an annual rate of 2.2% and 2.0% in the first and second quarters, respectively. But consumer spending slowed during the second half of 2012, to a rate of 1.8% during the third and fourth quarters.

**Chart 2**  
**US UNEMPLOYMENT RATE**  
Non-Agricultural



## The Forecast

Table 1 summarizes U.S. Macro Forecast projections from IHS Global Insight. This summary depicts for the near term a forecast similar to the one discussed by the Congressional Budget Office (CBO) document, "The Budget and Economic Outlook: Fiscal Years 2013 to 2023".

**Table 1**

Forecast Change in Key US Economic Indicators Annual Percentage Growth*				
Indicator	2012p	2013p	2014p	2015p
Nominal GDP	4.6	3.1	4.4	4.9
Real GDP	2.8	1.6	2.6	3.3
Real Personal Consumption	2.2	1.9	2.5	2.7
Corporate Profits (After Tax)	19.2	2.3	7.8	-0.5
Unemployment Rate (Rate)	8.1	7.6	7.1	6.5
CPI	2.1	1.5	1.4	1.8
Federal Funds (Rate)	0.14	0.12	0.16	0.37

\* Assumptions in this chart, as well as other assumptions, are incorporated in the 2014-15 fiscal year revenue estimates.  
p = projected

In the CBO outlook, economic growth is projected to be 3.4% in 2014 and averages 3.6% per year in 2015 through 2018. That growth closes the gap between actual and potential GDP by 2017. The quickening of economic growth in 2014 is based on CBO projections of continued improvements in household income and wealth and in credit markets.

Consumer spending will be supported by faster growth in wages and salaries (a result of more robust employment growth) and by continued gains in household wealth, owing to persistent increases in house prices and stock prices. Stronger demand for goods and services by households, in

## Economic Outlook (continued)

turn, will encourage businesses to undertake investments in structures and equipment as well as to engage in further hiring.

Greater availability of credit will also support consumer spending and business investment. In addition, CBO expects that increased spending by federal, state and local governments will add a small amount to overall demand after 2013.

As a result of stronger economic growth, the unemployment rate is projected to fall from 8% in the fourth quarter of 2013

to 6.8% in the fourth quarter of 2015 and then declines gradually to 5.5% in the fourth quarter of 2018. Table 1 illustrates the expected outlook for lower unemployment and an increase in GDP.

Table 2 also summarizes U.S. Macro Forecast projections from IHS Global Insight. Table 2 notes that over the next two years there is a 60% probability of modest GDP growth, with an increase in consumer and business fixed investment. Table 2 describes the expected performance of various economic indicators in the baseline forecast.

Table 2

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

December 2013

Baseline Forecast (60% Probability)	
<b>GDP Growth</b>	Modest growth, 2.5% in 2014 and 3.2% in 2015
<b>Consumer Spending</b>	Modest, up 2.7% in 2014 and 2.9% in 2015
<b>Business Fixed Investment</b>	Moderate, up 4.3% in 2014 and 6.3% in 2015
<b>Housing</b>	Gradual improvement, more than 1 million starts by early 2014
<b>Exports</b>	Accelerating to 4.9% in 2014 and 5.1% in 2015
<b>Monetary Policy</b>	Tapering begins in January 2014, with the first federal funds rate hike in September 2015
<b>Credit Conditions</b>	Gradually easing
<b>Consumer Confidence</b>	Growing at a moderate pace
<b>Oil Prices</b> (dollars per barrel)	Brent crude oil price averages \$104 in 2014 and falls below \$100 by 2015
<b>Stock Markets</b>	The S&P 500 advances moderately
<b>Inflation (CPI)</b>	Headline CPI inflation moderates to 1.4% in 2014, moderately higher thereafter; core CPI inflation at 1.9% in 2014
<b>Foreign Growth</b>	Eurozone growth gradually recovers, with real GDP growth rebounding 0.8% in 2014, after falling 0.4% in 2013; emerging-market growth gradually accelerates
<b>U.S. Dollar</b>	Depreciates against major currencies and other currencies

## Pennsylvania Outlook

In Pennsylvania, the Great Recession was shorter and less severe than it was in many other states or in the nation. During the recession, U.S. unemployment peaked at 10.1% while the commonwealth unemployment rate peaked at 9.3%. Following the end of the Great Recession, Pennsylvania's economy has been steadily recovering. Since that time, Pennsylvania's unemployment rate has been declining. Pennsylvania's unemployment rate is expected to steadily improve during 2014 and 2015, forecast at 7% and 6.4%, respectively. A further decline to 5.7% is projected by 2017.

The construction sector will provide a boost to overall employment over the next five years, especially from 2014 onward as the housing recovery hits full stride. Pennsylvania will benefit from the continued development of the Marcellus shale natural gas deposit which will provide jobs in the mining industry as moderately higher prices will spur renewed growth in natural gas drilling. 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.

## Economic Outlook (continued)

Further aiding the construction industry, the recently enacted transportation infrastructure plan will provide an additional \$2.3 billion annually to invest in Pennsylvania roads, bridges, transit and multimodal transportation systems by its fifth year of implementation. This investment will create approximately 50,000 new jobs in construction and related fields.

Pennsylvania housing starts are expected to increase substantially over the next two years from the current rate of 22,000 starts to more than 40,000 starts per year by 2016-2017. Median existing housing prices are also expected to increase over the same time period – from a current median price of approximately \$168,000 to \$189,000 by the end of 2017.

Pennsylvania employment has already recovered more than 99 percent of its pre-recession jobs level and its employment is expected to steadily increase as shown in Chart 3.

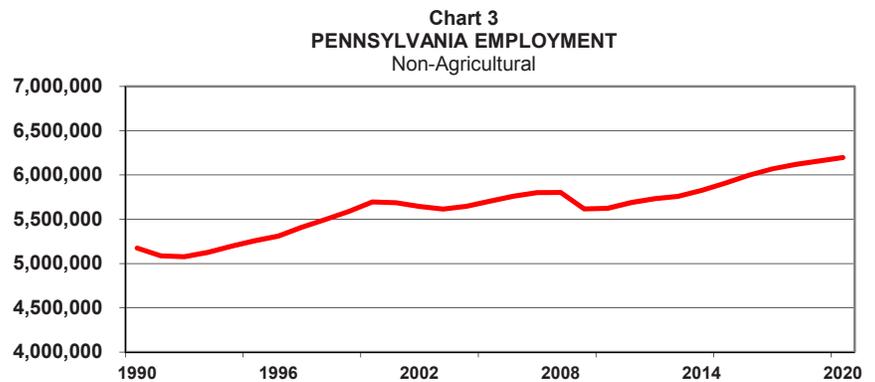


Table 3 shows various historical and projected key economic indicators for Pennsylvania and the U.S. economy.

**Table 3**

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

December 2013

<b>PENNSYLVANIA: Key Economic Indicators</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Real Gross State Product (in millions – 2005 dollars)	\$502,769	\$511,781	\$517,353	\$526,717	\$540,495	\$554,871
Real Gross State Product (percentage change)	1.9%	1.8%	1.1%	1.8%	2.6%	2.7%
Total Employment (in thousands)	5,688.3	5,732.1	5,759.0	5,824.0	5,908.1	5,996.7
Total Employment (percentage change)	1.1%	0.8%	0.5%	1.1%	1.4%	1.5%
Manufacturing Employment (in thousands)	565.0	567.3	567.8	579.0	591.0	598.9
Nonmanufacturing Employment (in thousands)	5,123.3	5,164.7	5,191.3	5,245.1	5,317.1	5,397.9
Population (in thousands)	12,745.6	12,766.3	12,790.8	12,819.8	12,850.3	12,881.8
Population (percentage change)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Unemployment Rate (percentage)	7.9%	7.9%	7.7%	7.0%	6.4%	6.0%
Personal Income (percentage change)	5.4%	3.1%	1.9%	4.5%	4.4%	4.8%
<b>U.S. ECONOMY</b>						
<b>Real Gross Domestic Product (percentage change)</b>	1.8%	2.8%	1.8%	2.5%	3.2%	3.3%
<b>Employment (percentage change)</b>	1.2%	1.7%	1.6%	1.7%	1.8%	1.9%

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# Capital Budget

## Recommended 2014-15 New Project Authorizations – State Funds

From Bond Funds	Millions
Agriculture .....	\$ 14.0
Corrections.....	55.1
Education .....	108.6
Emergency Management Agency .....	8.4
Environmental Protection.....	37.7
General Services .....	10.4
Historical and Museum Commission.....	30.0
Military and Veterans Affairs .....	16.5
Public Welfare .....	34.3
State Police.....	26.8
Transportation-Local Transportation Assistance.....	351.4
Subtotal Bond Funds.....	\$ 693.2
From Current Revenues	
Conservation and Natural Resources .....	\$ 31.3
Transportation.....	436.6
Subtotal Current Revenues.....	\$ 467.9
<b>TOTAL CAPITAL PROJECTS TO BE AUTHORIZED .....</b>	<b>\$ 1,161.1</b>

The Capital Budget provides for the acquisition, design, construction, and/or renovation of new or existing commonwealth buildings, facilities, physical betterments or improvements.

### Agriculture

Provides improvements to the Farm Show Complex, agricultural laboratories and other agricultural-related facilities.

### Conservation and Natural Resources

Provides for construction and renovation of support, day use, camping facilities and utility systems at the state parks; construction of district offices, central garages, radio communications systems; and rehabilitation of forest roads in forest districts.

### Corrections

Provides for construction and renovation of administrative, industrial, educational and housing facilities and utilities at the state-owned correctional institutions.

### Education

Provides for construction, expansion, renovation and conversion of classrooms and auxiliary buildings, utilities and recreational facilities for the State System of Higher Education, state-owned schools and state-related universities.

### Emergency Management Agency

Provides for construction and renovations at the State Fire Academy, emergency operations centers and other emergency facilities.

### Environmental Protection

Provides for construction and improvement projects to protect the environment and the health and safety of citizens using state lands and waterways. Projects include flood protection construction and flood control projects.

### General Services

Provides for construction, renovation and improvements to state office buildings and facilities.

### Historical and Museum Commission

Provides for restoration and renovation of historic facilities, installation of fire and security systems, development of fixed exhibits and miscellaneous building and utility improvements at commonwealth-owned museums and historic sites.

### Military and Veterans Affairs

Provides for land acquisition, renovations, additions and replacement at the state armories and veterans' homes.

### Public Welfare

Provides for construction and renovation of patient buildings, support facilities and utilities at state institutions for the mentally ill and intellectually disabled, restoration centers and youth development centers.

### State Police

Provides for renovation, expansion and construction of troop headquarters and station facilities and driver examination facilities.

### Transportation

Provides for improvements for local mass transit agencies, rail freight and air transportation projects. Also provides for the construction, and reconstruction of highways and bridges on the commonwealth road system and major federally designated safety projects.