



GOVERNOR TOM WOLF

2015 - 2016 PENNSYLVANIA EXECUTIVE BUDGET-IN-BRIEF





COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

March 3, 2015

To the People of Pennsylvania:

It's time to rebuild the middle class in Pennsylvania and that starts with three priorities: jobs that pay, schools that teach, and government that works.

We all know the challenges Pennsylvania faces. We are staring at a \$2.3 billion budget deficit, we are near the bottom of the country in job growth, our state's bond ratings have been in decline, and our schools are struggling.

I believe that Pennsylvania can have a bright future, but we cannot simply do the same things over and over and hope for different results. We need to think differently and do things differently. It's time for bold change.

My budget makes historic investments in education while eliminating the deficit and ending our commonwealth's seemingly endless year after year fiscal crises. I have proposed the Education Reinvestment Act that will restore funding for schools and make natural gas companies pay their fair share. My budget will cut school district property taxes by more than 50 percent for the average homeowner. It will lower corporate tax rates for business by 40 percent, while closing tax loopholes. And I will work with the General Assembly to create a fair funding formula so that all students are assured the same opportunities to receive a quality education.

Pennsylvania will not improve until we rebuild our middle class. My plan cuts taxes to spur the growth of jobs that pay and support a family, invests in education to prepare our kids for the economy of the future and reduces the total tax burden on middle-class homeowners. My plan makes government more efficient. It cuts costs, eliminates redundant programs, and does things smarter so that taxpayers feel confident their tax dollars are spent wisely.

This is my proposal, but I welcome ideas from everyone throughout Pennsylvania. I welcome ideas from my Republican and Democratic colleagues – in fact, my property and business tax cut plans have previously been championed by many members on both sides of the aisle. I don't expect everyone to agree with every piece of this budget, but more one-time fixes or Band-Aids will not rebuild our middle class and give us the Pennsylvania we all want and deserve. I want your plans, your ideas, your proposals, and I want you to seriously consider my budget because it is a clear roadmap to rebuilding our middle class.

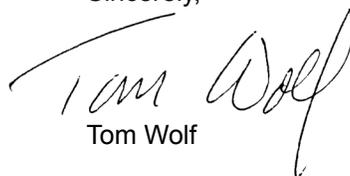
I believe it is time to do big things in Pennsylvania. Doing nothing is not an option. I encourage all Pennsylvanians to come forward with ideas of your own. I said in my inaugural address that I would take ideas and policies from all comers, and now is the time.

I do not want to be part of the first generation of Pennsylvanians who have to tell our children that they have to go somewhere else to achieve success. No one does. But now we need to do big things to rebuild Pennsylvania's middle class and get Pennsylvania back on track.

My budget makes historic investments in education, focuses on creating good paying jobs, and makes government more efficient and effective. Jobs that pay. Schools that teach. Government that works. These are my priorities. These are our priorities. Now let's get to work.



Sincerely,


Tom Wolf



Commonwealth of Pennsylvania

2015-16 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.state.pa.us

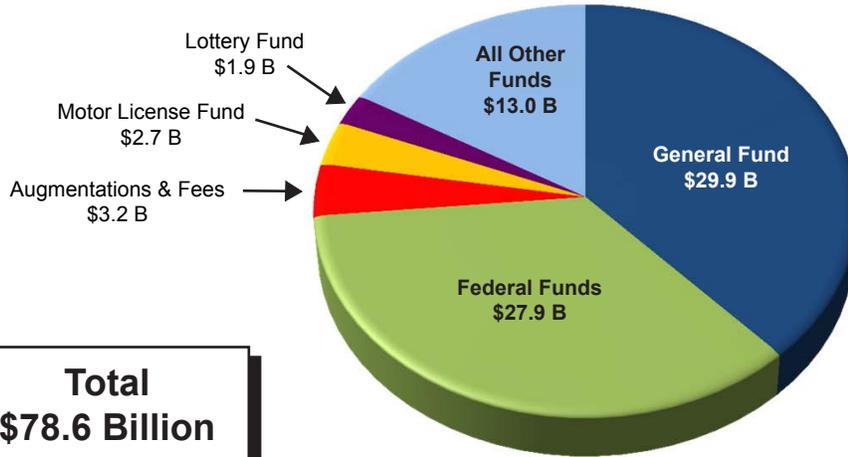
Click on Current and Proposed Commonwealth Budgets.

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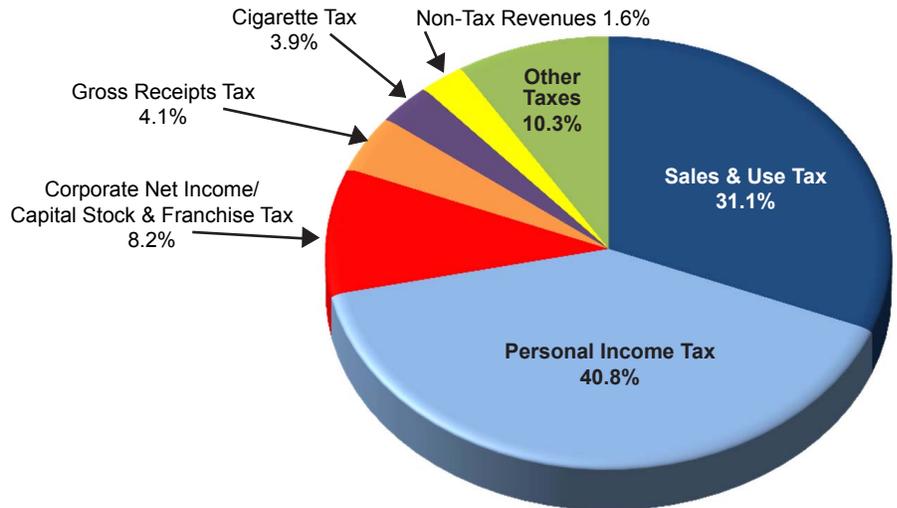
2015-16 Budget Overview

Total Operating Budget

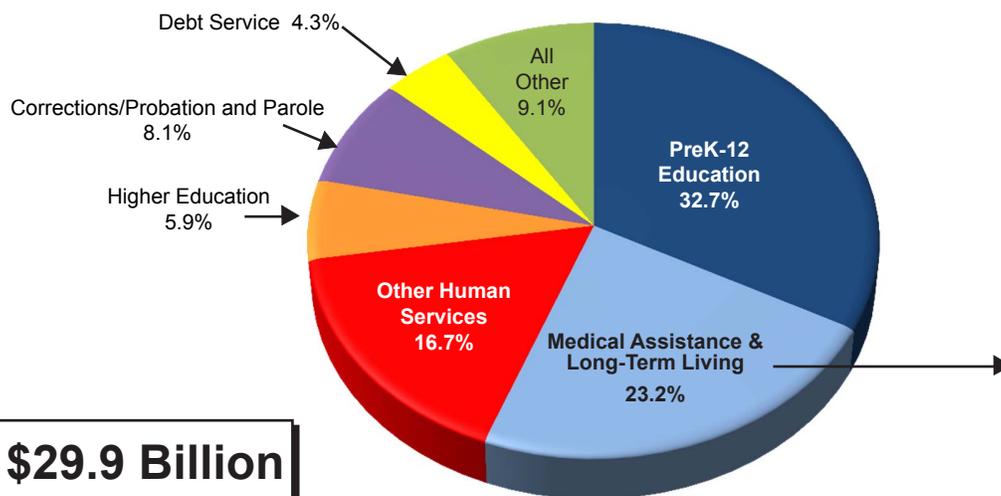


**Total
\$78.6 Billion**

General Fund Revenues

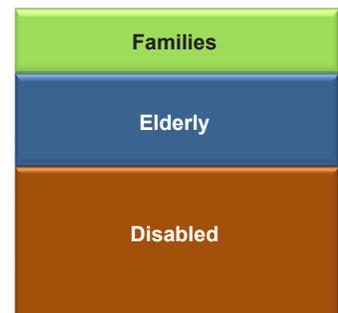


General Fund Expenditures



\$29.9 Billion

Medical Assistance & Long-Term Living Spending by Recipient Category



2015-16 Budget Highlights

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

Jobs that Pay

- The budget reduces school district property taxes by \$3.8 billion in 2016.
 - ✓ Reduces homeowner taxes by an average of more than 50 percent.
 - ✓ Targets greater tax relief for high-tax, high-poverty communities.
 - ✓ Proposes wage, sales, cigarette and property tax relief for Philadelphia.
- The budget makes the business tax climate competitive:
 - ✓ Proposes a 5.99 percent Corporate Net Income Tax rate effective January 1, 2016, reduced further to 4.99 percent by 2018.
 - ✓ Proposes a mandatory phase out of the Capital Stock and Franchise Tax effective January 1, 2016.
 - ✓ Implements mandatory combined reporting effective January 1, 2016, closing the Delaware loophole.
 - ✓ Adopts a revenue-neutral bank shares tax rate.
- The budget would raise the minimum wage.
- The budget implements a \$1.75 billion Job Growth plan:
 - ✓ New infrastructure investments in site, transportation, and water and sewer.
 - ✓ Alternative and clean energy.
 - ✓ Technology and manufacturing focus.
 - ✓ Proven economic development programs.
- The budget proposes a two-year commitment to restore all Higher Education cuts – with new funds focused on workforce needs and collaborative research investment.
 - ✓ Community Colleges – a \$15 million increase.
 - ✓ Workforce Development – a \$51 million increase.

2015-16 Budget Highlights

Schools that Teach

- The budget proposes a Marcellus Shale Tax targeted to fund Education.
- The budget makes a \$1 billion Education Investment in 2015-16.
 - ✓ Restores Basic Education cuts and 50 percent of Higher Education cuts.
 - ✓ Reforms Cyber Charter School funding – will save school districts \$160 million.
 - ✓ Requires fully audited expenditures for all final Charter School payments.
- This budget provides a \$120 million increase in high-quality early childhood education to enroll more than 14,000 additional children (a 75 percent increase in enrollment) in Pennsylvania Pre-K Counts and the Head Start Supplemental Assistance Program.
- The budget strengthens the Accountability System to demonstrate success.
- The budget proposes a four-year commitment to increase Basic Education, Special Education and Early Learning funding by \$2 billion.

Government that Works

- \$150 million GO TIME Initiative.
- Pension Funding Plan – \$10 billion in savings.
 - ✓ Establish a new dedicated restricted account.
 - ✓ \$3 billion Debt Refinancing with debt service paid by LCB profit increases.
- PSERS/SERS Investment Reform:
 - ✓ Five-year savings of \$370 million for school districts.
 - ✓ Five-year savings of more than \$900 million for the commonwealth.
 - ✓ Reduce management fees paid to Wall Street firms.
- Corrections Reform:
 - ✓ Consolidate Corrections and Probation and Parole to provide administrative and policy benefits.
 - ✓ Consider future sentencing reforms.
- Reintegrate Medicaid Expansion into a single delivery system – will realize \$500 million in 2015-16 savings.
- Transition to Medicaid Managed Long-Term Care:
 - ✓ Implement Phase 1 in 2015-16 with transition complete in three years.

Other Budget Initiatives

- First year of a three-year restoration of County Human Services cuts – \$28 million.
- Intellectual Disabilities/Autism waiting list reductions and services – \$45.9 million.
- Expand Home and Community-Based Services – \$38.3 million.
- Provide a \$7.5 million increase to address heroin use and opioid addiction.

Governor's Introduction

My budget is centered around three priorities that will help to rebuild the middle class: Jobs that pay. Schools that teach. Government that works.

Jobs that Pay

For too long, our economy has been headed in the wrong direction. Job growth has lagged our national economy and we've lacked the vision and leadership to move our economy into the 21st century. It's time that we make smart, targeted investments in proven programs to spur private business to create jobs.

I am a businessperson. I know it is tough for new businesses to grow here. I want business to thrive in Pennsylvania by making our corporate tax climate competitive and fair by immediately lowering our corporate net income tax rate to 5.99 percent, zeroing out the capital stock and franchise tax, and implementing mandatory combined reporting.



Pennsylvania's renaissance will be driven by a thriving manufacturing sector. My budget will help revive Pennsylvania's manufacturing economy by providing tax credits and targeted assistance to companies that increase the number of high-paying jobs.

Pennsylvania is a national leader in higher education, and we must make better efforts to partner with our colleges and universities. Workforce development will be a priority for me. We'll work hard to match our employers with students and my budget will encourage partnerships with community colleges to improve education and training in high-growth occupation sectors.

Pennsylvania can and should be an energy leader. We must take full and responsible advantage of our rich Marcellus shale resources. We need to partner with the industry and make Pennsylvania a leader in energy manufacturing and development. It is not enough to take it out of the ground and ship it to other markets; we need to build new businesses by using our natural gas as a feedstock as well as an energy resource. That way we will be a leader in exciting industries like biotech, materials, chemicals and life sciences.

We must not be limited in our energy approach. My budget will make Pennsylvania a national leader once again in clean energy production like solar and wind and I will work to protect coal and continue Pennsylvania's traditions of harvesting timber and hardwood.

It will not be easy to get our economy back on track and rebuild the middle class, but by taking bold steps and trying new things, we can grow our economy, create new jobs, and make Pennsylvania a leader in the 21st century.

Schools that Teach

For the past few weeks and throughout my campaign, I have traveled our state, visiting schools, talking with teachers and parents, and sitting with students in classrooms. I have seen dedicated teachers and committed students who simply do not have the resources they need. That is why I have proposed a common-sense severance tax on natural gas extraction. It is also why this budget makes historic investments in our schools.

My budget restores cuts to basic education with a four-year commitment to increase funding by \$2 billion and pursue a goal of universal pre-kindergarten instruction for all children. My budget reforms cyber charter school funding, installing payment limits that will save school districts more than \$160 million annually. Further, I will require fully audited expenditures for all final charter school payments. For higher education, my budget restores cuts made to our institutions of higher learning, with a two-year plan to fully restore those cuts.

We must make our schools a top priority, and we must seamlessly integrate our schools into our pathways of economic development. It is not enough for a student to make it through our schools; they must complete their education with the skills they need to fill the jobs of the 21st century. To help achieve this, this budget commits new funds that are focused on workforce needs and collaborative research investment.

While my budget restores education funding, it also creates new accountability measures so that schools must demonstrate that they are preparing students for success. We must ensure that all tax dollars going to our schools – traditional public schools, charter schools and private schools – are being spent wisely and effectively.



Governor's Introduction (continued)

Government that Works

My budget plan will immediately repair a \$2.3 billion structural budget deficit that has caused great pain for our schools, our businesses, our communities, and taxpayers alike. Five downgrades by bond rating agencies, including three this past year, should make it clear to all of us that business as usual is no longer acceptable. We must take drastic steps to fix Pennsylvania's budget ills. Accordingly, this is a no-gimmicks budget. It is balanced, responsible and it solves our fiscal crisis.

My budget strives to build a government that works for all Pennsylvanians and effectively delivers services. My initiative, GO TIME, will save taxpayers more than \$150 million in the next year. I will continue to make government work better, and more efficiently. My budget will make effective consolidations. It will merge the Department of Corrections with the Board of Probation and Parole to eliminate duplicative administrative oversight and provide better outcomes for offenders returning to the community. Already, I have reintegrated Medicaid into a single delivery system with a goal of realizing \$500 million in additional state savings next year.

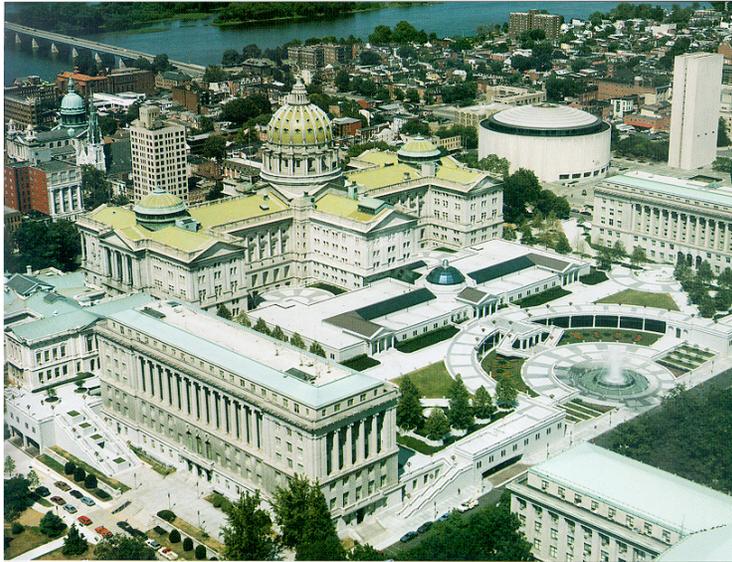
This budget takes important steps to reform government wherever possible. This budget implements pension reforms that work and save real money for taxpayers while ensuring retirement security for workers who have faithfully paid their bill. By prioritizing returns and cost savings instead of paying extravagant Wall Street fees, we can save hundreds of millions each year.

Moreover, by stepping up and paying our bills now, like families must do each month, we can reduce our obligations and get our pension system back on track. I will do that by creating a dedicated revenue stream and depositing it into a restricted account so politicians can no longer spend employees' pension savings at their whim, leaving the bill for a future generation. All told, my plan will produce savings to reduce our total long-term liability by more than \$10 billion.

My budget gives our Liquor Control Board the tools it needs to grow profits and provide substantial new taxpayer savings. Modernizing our liquor delivery system will make it easier and more convenient for customers, while maximizing

profits. In my business, my success was dependent upon fully deploying assets and fully realizing their value, and my plan does just that for the Wine and Spirits system.

In addition to making state government work, we will collaborate with our local government partners to strengthen communities and address the longstanding challenges they face, including infrastructure, human services, and cost drivers such as municipal pensions.



A government that works is a government that does right by its seniors. By lowering property taxes, we will make it easier for seniors to stay in their homes, and my budget will provide more home health care options for seniors so they can live at home for as long as they want to remain there.

Since I took my oath of office, I have worked to change government and hold people to a higher standard. On my first day in office, I banned all gifts and reformed legal contracting.

I have strived to be open and transparent in my actions as governor, posting my calendar on my website each week. And I will keep looking for ways to instill confidence in our government.

This budget is different. It is bold, and it has big ideas that will help to rebuild Pennsylvania's middle class. My budget makes historic investments in education, and it solves problems that have been languishing without solutions for too long. It is time for Pennsylvania to do big things. It is time for all of us to get to work and get Pennsylvania back on track.



Jobs that Pay

To build an economy characterized by strong growth and shared opportunity, Pennsylvania must give businesses the tools they need to succeed by fixing a broken and outdated tax structure, providing new capital for economic development, and establishing an education and training system for the 21st century economy. This will challenge employers to create new, high-wage jobs to help build economic prosperity for middle-class families.

A Competitive Tax Plan for More Jobs and Stronger Communities

The 2015-16 Budget establishes a competitive tax climate to attract and retain jobs and businesses. This sweeping tax relief package achieves economic growth and improves the fairness of the commonwealth's tax structure.

Creating a Pro-Growth Business Climate

- **Ending Pennsylvania's Reputation as a High Business Tax State.** The budget reduces the Corporate Net Income Tax (CNIT) from 9.99 percent to 5.99 percent – improving the commonwealth's ranking from second-highest to fourteenth-lowest and bringing Pennsylvania's tax rate below the national average and below all of our neighboring states. Within 2 years, the rate will drop to 4.99 percent – ranking tenth-lowest in the nation.
- **Finally Eliminating the Capital Stock and Franchise Tax** – The budget ends the long, often delayed, phase-out of the Capital Stock and Franchise Tax by eliminating this tax effective January 1, 2016.
- **Leveling the Playing Field** – Loopholes in current law enable large corporations to shelter income, making it harder for small businesses to compete. Under the budget, Pennsylvania will join 28 other states that require "mandatory combined reporting." Companies will file a single return for all subsidiaries at the state level, just as they do at the federal level.
- **Updating the Cap on "Net Operating Losses"** – This budget decreases the cap on net operating losses from \$5 million or 30 percent of income to \$3 million or 12.5 percent of income. This change only affects 290 corporations and allows the CNIT rate to be reduced for all corporations subject to the tax.

Making Property Tax Relief a Reality

Pennsylvanians have been debating property tax relief for decades, but the tax bills keep mounting. **The 2015-16 Budget enacts historic dollar-for-dollar tax relief to finally cut school property taxes by \$3.8 billion – more than a 50 percent average reduction in homeowner and farmstead property taxes.** This tax reduction will target greater relief to high-tax, high-poverty communities and will revitalize communities across the commonwealth

– creating economic growth and transforming the fates of boroughs, villages, towns and cities.

With \$3.8 billion in property tax relief effective in the 2016-17 school year, homeowners in many communities will receive the maximum reduction in their property tax bills allowed by the Pennsylvania Constitution, and the remaining funds will be used to reduce the property tax millage rate for both homeowners and businesses. These dramatic property tax cuts will encourage homeownership and business growth, protect senior citizens, and provide a lifeline to older, struggling towns and cities and to fast-growing and suburban communities alike. A total of **270,000 senior households** – nearly 30 percent – will have their school property taxes eliminated through this \$3.8 billion initiative.

In addition, renters having \$50,000 or less in household income will receive a **rent rebate, capped at \$500.**

To achieve this historic tax relief, the 2015-16 Budget recommends changes to the personal income tax and sales tax based on proposals from the General Assembly. The personal income tax will rise to 3.7 percent – the **third-lowest** of all states with an income tax and significantly **lower than all of Pennsylvania's surrounding states.** In addition, a family of four earning up to 150 percent of the poverty level (approximately \$36,000) would **pay no state income taxes.**

Funds reserved for property tax and rent relief will be transferred from personal income tax revenues into a restricted account. Beginning in October 2016, \$3.6 billion will be transferred to the Property Tax Relief Fund and distributed to homeowners and renters.

Personal Income Tax (PIT) Reserved for Property Tax and Rent Relief

(Dollar Amounts in Millions)

	2015-16	2016-17	2017-18	2018-19	2019-20
Beginning Balance	-	\$2,140	\$3,070	\$3,070	\$3,070
PIT Restricted Revenue	\$2,140	4,596	3,666	3,631	3,631
Total Funds Available	\$2,140	\$6,736	\$6,736	\$6,701	\$6,701
Transfer to Property Tax Relief Fund	-	(3,666)	(3,666)	(3,631)	(3,631)
Ending Balance	\$2,140	\$3,070	\$3,070	\$3,070	\$3,070

Also based on legislative proposals, the sales tax will be expanded to be more consistent with the modern economy and the rest of the nation. Pennsylvania's sales tax rate will increase by 0.6 percentage points, and **exemptions for food, clothing and prescription drugs will remain in place** to protect the most vulnerable citizens. The

Jobs that Pay (continued)

broadening of the sales tax to services reflects the growing shift to a service-based economy. Likewise, outdated exemptions – often protected by special interests – will be eliminated to make the tax system fairer and more consistent with other states.

Not currently taxed in PA	Taxed in...
Basic television	23 other states
Candy and gum	31 other states
Amusement and recreation	34 other states

This property tax relief plan also incorporates more than \$600 million in revenue from gaming that is already being dedicated to property tax reduction.

An Economic Growth Plan for Pennsylvania Jobs

The commonwealth can help set the table for robust private sector growth to create and retain jobs. This budget recapitalizes critical public investment programs, builds on success, and takes advantage of Pennsylvania's historic strengths in the energy and manufacturing sectors.

Building Pennsylvania's Manufacturing Sector

Manufacturing has been at the heart of Pennsylvania communities and the growth of its middle class. The 2015-16 Budget includes initiatives to build on that strength to create new, good-paying jobs:

- **Made in Pennsylvania Job Creation Program** – To further encourage job growth, the budget includes a \$5 million tax credit that will be distributed to manufacturing companies that are creating good-paying, middle-class jobs. This initiative is being funded through the elimination of other under-performing tax credits.
- **IRC Centers Manufacturing Initiative** – This budget provides \$5 million for a new initiative that combines the knowledge and experience of the state's Industrial Resource Centers with breaking technological advances from the higher education sector. This initiative will mobilize the talents of Pennsylvania's research universities to advance manufacturing technology and commercialization.

Harnessing Marcellus Shale Resources to Support Economic Growth Statewide

The 2015-16 Budget launches a **\$675 million bond program, supported by revenue from the severance tax on drilling, to invest in economic development initiatives** that leverage private sector funds to create jobs.

- **Recapitalize Revolving Loan Funds for Business Development** – The transfer of \$180 million from the Machinery and Equipment Loan Fund and Small Business First Fund, a one-time measure to balance the 2014-15 Budget has severely limited the commonwealth's

ability to assist manufacturers and small businesses. This budget provides **\$100 million to the Pennsylvania Industrial Development Authority** to address current and future business growth needs.

- **Business in Our Sites** – This budget provides **\$250 million to Business in Our Sites**, a financing tool which allows the commonwealth to compete effectively for business expansions and relocations. Since 2004, 18,006 jobs have been created and \$1.8 billion in private investment has been made at Business in Our Sites projects.
- **Energy and Technology Investments** – This budget provides \$325 million to ensure a comprehensive energy portfolio that supports gas, oil and renewables and encourages conservation and clean technology alternatives, including:
 - ✓ \$30 million for Combined Heat and Power (Cogeneration)
 - ✓ \$20 million for Wind Power
 - ✓ \$20 million for Green Agriculture
 - ✓ \$30 million for the Pennsylvania Energy Development Authority
 - ✓ \$25 million for "Last Mile" Natural Gas Distribution Line Development
 - ✓ \$50 million for PA Sunshine - Solar Investment
 - ✓ \$50 million for Energy Efficiency
 - ✓ \$100 million for Technology Investment

Investing in Proven Job-Creation Programs

Successful economic development requires partnerships between the public and private sectors. The 2015-16 Budget re-invests in programs that are proven to create jobs and long-term economic growth:

- **World Trade PA** – A **\$1 million increase** to expand the promotion of PA exports in key international markets and to attract foreign investment.
- **Marketing to Attract Tourists** – A **\$2 million increase** to encourage statewide tourism, one of the commonwealth's largest industries with \$32.9 billion in total economic activity and a 450,000 job impact on the state's economy.
- **Marketing to Attract Business** – A **\$1 million increase** to bolster business attraction activities.
- **PA First** – A **\$25 million increase** to facilitate investment and job creation through the Opportunity Grants, Infrastructure Development and Customized Job Training programs.

Jobs that Pay (continued)

- **Keystone Communities** – A **\$15 million increase** to the Main Street, Elm Street and Core Communities Development Projects programs to encourage growth and stability in Pennsylvania communities and neighborhoods, social and economic diversity and a strong and secure quality of life.
- **Infrastructure and Facilities Improvement Program** – An **additional \$11 million** for multi-year grants to debt-issuing authorities for assistance on major economic development projects.
- **Base Realignment and Closure** – **\$775,000** to preserve Pennsylvania’s military communities.
- **Public Television Technology** - **\$4 million to increase technology** to educate, inform and connect the citizens of Pennsylvania.

Affordable Housing and Stable Communities

- **Mixed Use Development Program** – **\$15 million** through the Pennsylvania Housing Finance Agency to increase affordable housing and commercial corridor development opportunities in areas of the commonwealth where significant need and potential impact are identified.

Securing Our Future with Smart Infrastructure

- **Transportation Infrastructure** – The budget includes historic levels of new investment in all modes of transportation. Revenues generated by the bipartisan transportation bill, Act 89 of 2013, will be supplemented by \$145 million in bonds scheduled to be issued in 2014-15 and authorized under Act 89 of 2013. These new capital investments will total \$500 million over the next three years. These investments will be further enhanced by public-private partnerships as authorized under Act 88 of 2012.
- **Water and Sewer Infrastructure** – Leverage more than \$500 million to increase the commonwealth’s efforts to address deteriorating municipal water and sewer systems through the issuance of PENNVEST revenue bonds.

PA Rising: Higher Education and Workforce Development for Pennsylvania’s Future

An economic resurgence is within Pennsylvania’s reach if we give our students and working families the skills they need to succeed. Now more than ever, rebuilding the middle class and creating a better future for the commonwealth’s residents depends on developing a skilled workforce and a business-driven education and training strategy.

The path forward is clear: greater levels of education and training, aligned with employer needs, lead to more economic opportunity for Pennsylvanians.

Yet today, just 48 percent of Pennsylvanians have a college degree or industry-recognized certification. By 2025, fully 60 percent of good-paying, reliable Pennsylvania jobs will require these credentials. Pennsylvania will close that gap – making a college degree or high-value industry-recognized certification available to at least 650,000 additional commonwealth residents over the next decade.

Pennsylvania is rising to the challenge. With higher levels of education and training, matched to the needs of our employers, we will create an economy based on opportunity, innovation and success – and leave the next generation of Pennsylvanians the vibrant commonwealth they deserve.

The 2015-16 Budget launches the **PA Rising education and training initiative**:

Building a Bridge from High School to College and Careers

Preparation for high-skill careers starts long before most students begin to think about college and jobs. The 2015-16 Budget invests in programs that help prepare students for success after high school:

- **Career and Technical Education.** As the first step in transforming and modernizing Career and Technical Education, the state will provide **\$15 million** to support



Jobs that Pay (continued)

the establishment or enhancement of programs that prepare students for success in today's high-skill economy. School districts and Career and Technology Centers, higher education institutions, employers and labor organizations will be able to establish public-private partnerships to train students for high-demand, high-growth 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 and will participate in work-based learning. Approximately 30 grants of up to \$500,000 each will be awarded, with at least one in each Workforce Investment Area.

- **Career and Technical Education Equipment Grants.** The budget includes **\$5 million** for CTE equipment grants, with priority for Career and Technical Education grant applicants that show an in-kind or monetary contribution from employers or other partners.
- **Dual Enrollment Grant Program.** Students who earn college credit in high school are more likely to enroll and succeed in post-secondary education. The budget recommends **\$9 million** from PHEAA proceeds to re-establish the State's Dual Enrollment Grant Program, which pays the cost of tuition, textbooks and other expenses so that high school students can enroll in college classes and participate in Early College and Middle College High School programs.
- **Career Counselors.** Students and their families must begin preparing for college and careers long before the end of high school. The budget provides **\$8 million** to school districts to offer college and career counseling in middle and high schools in order to develop pathways for students to pursue high-skill careers.



Reinvesting in College Success

The 2015-16 Budget reinvests in higher education and commits to fully restore the cuts to colleges and universities over the next two years. In addition, the state will also go much further as Pennsylvania works to achieve the goal of 60 percent of residents with a degree or high-value certificate by 2025: we will leverage our investment to dramatically improve college completion rates, boost innovation and strengthen alignment with real-world economic opportunities and the needs of employers.

As part of the 2015-16 Budget, the state will work with community colleges and the Pennsylvania State System of Higher Education (PASSHE) to develop individual college plans that address performance, affordability, student completion and transformation through structured career pathways and partnerships with employers:

- **Community Colleges.** The budget provides a **\$15 million (7.0 percent)** increase to community colleges to achieve these policy goals – restoring 75 percent of the community colleges' cuts since 2011.
- **PASSHE.** The budget provides a **\$45.3 million (11.0 percent)** increase to the Pennsylvania State System of Higher Education to achieve these policy goals.

Pennsylvania's world-class colleges and universities also play a critical role in research, innovation and invention. The 2015-16 Budget invests in the success stories of the future:

- **State-Related Universities.** As part of the state's commitment to restoring higher education cuts over the next two years, the budget provides an **\$80.9 million increase** to 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.

Making Higher Education Affordable for All

The massive state cuts to colleges and universities over the last four years have led to tuition hikes that imperil the promise of higher education for working families. At PASSHE alone, state budget cuts resulted in tuition increasing by nearly 18 percent since 2010-11. The 2015-16 Budget makes higher education more affordable for Pennsylvanians:

- **Community College and PASSHE Tuition.** The budget calls on the community colleges and State System universities to freeze tuition for the next academic year. As the State reinvests, Pennsylvania families deserve a break.

Jobs that Pay (continued)

- **STEM Scholarship Initiative.** The budget recommends **\$7.5 million** from PHEAA proceeds to enhance incentives for students to pursue careers in fast-growing Science, Technology, Engineering and Math (STEM) fields.



- **Ready to Succeed Scholarships.** The Ready to Succeed Scholarship Program was launched in the 2014-15 Budget to provide financial assistance to middle-class students who maintain strong grades. Due to limited funding, 8,000 qualified students were unable to receive grants. The budget provides a **\$10 million (200 percent) increase** to offer additional scholarships.
- **Institutional Assistance Grants.** The budget provides a **\$5 million (21 percent) increase** for grants to independent colleges and universities to make college more affordable on behalf of students who qualify for PHEAA State Grants.
- **Bond-Hill Scholarships.** The budget provides a **\$466,000 (87 percent) increase** for scholarships for graduates of Lincoln and Cheyney Universities who pursue graduate and professional degree programs at state-related universities.
- **Cheyney Keystone Academy.** The budget provides a **\$475,000 (31 percent) increase** for grants to offset tuition, mandatory fees, books and supplies, and living expenses for gifted students who attend Cheyney University.
- **Loan Forgiveness for Primary Care Physicians.** The budget recommends **\$8.5 million** from PHEAA proceeds to support current grant recipients and to expand the state's successful loan forgiveness program to recruit and retain doctors to work in medically underserved areas.

Creating Workforce Partnerships for Economic Success

Pennsylvania's education and job training systems are too often disconnected from the state's economy. As a result, Pennsylvania faces a critical skills gap that harms

both workers and employers. The 2015-16 Budget takes bold steps to address this challenge:

- **Industry Partnerships** – This budget includes a **\$10 million increase** to enable 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. This increase will enable the formation of additional partnerships and help workers to move up into better jobs.
- **Workforce and Economic Development Network of Pennsylvania (WEDnetPA)** – This budget provides **\$8 million in funding** through the PA First initiative for additional employer-driven training to benefit more than 40,000 incumbent workers.
- **Specialized Technical Education** – The budget provides a **\$1.2 million increase** for the Pennsylvania College of Technology and an **\$863,000 increase** for the Thaddeus Stevens College of Technology.
- **Adult & Family Literacy** – This budget provides a **\$4.6 million increase** for job-linked adult literacy programs that build both literacy and employment skills.
- **Vocational Rehabilitation** – A **\$5 million increase** to provide on-the-job training for young people with disabilities ages 18 through 25, enabling the drawdown of an additional **\$18.5 million** in available federal funds.

Making Work Pay: Increasing the Minimum Wage

The 2015-16 Budget proposes to raise Pennsylvania's minimum wage from \$7.25 to \$10.10 and tie it to inflation to maintain its purchasing power over time. This change would benefit nearly 1.3 million Pennsylvania residents. Six hundred economists, seven of them Nobel Prize winners in economics, have signed a letter of support for raising the minimum wage to \$10.10 by 2016.

Together, these investments and reforms will set the commonwealth on the path to higher education and training levels, better wages and economic prosperity.



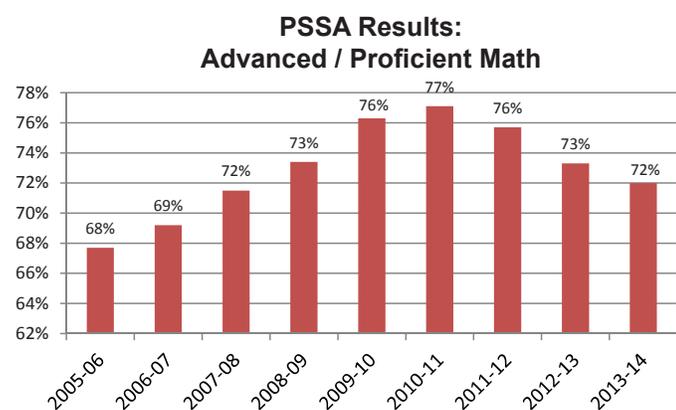
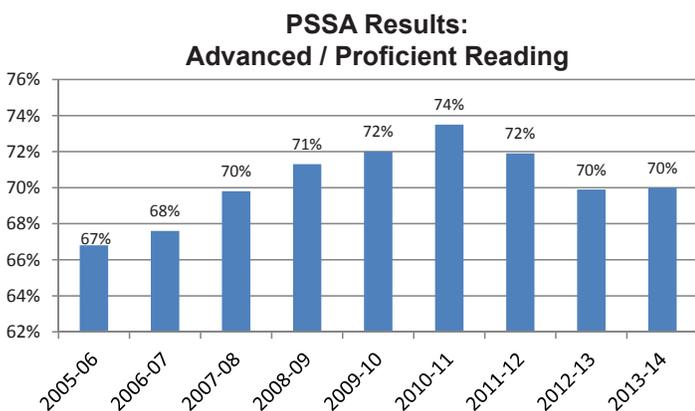
Schools that Teach

This budget makes historic investments in education.

Pennsylvania's future depends on providing every child with a world-class education and the skills to succeed in the global economy of the 21st century. In order to rebuild the middle class and re-establish Pennsylvania as an economic leader, the quality of education the commonwealth's children receive can no longer be dictated by the ZIP code where they live.

A high-quality education is the birthright of every Pennsylvanian – from pre-kindergarten through college graduation. To fulfill this promise, the state must start by recognizing that resources, results and responsibility go hand-in-hand; the success of our schools relies on adequate and equitable public investment, accompanied by strong and fair accountability.

Pennsylvania has seen what happens when the state fails to fulfill this fundamental responsibility. According to surveys conducted by the Pennsylvania Association of School Business Officials and the Pennsylvania Association of School Administrators, 93 percent of Pennsylvania school districts reported staff reductions in the last five years – totaling 23,000 education jobs lost through 2012 alone – and nearly three-quarters of school districts cut academic programs. As a result of state budget cuts, 91 percent of school districts have raised taxes. Meanwhile, student achievement levels have fallen.



The 2015-16 Budget repositions public education as a centerpiece of Pennsylvania's strategy for economic growth and opportunity. After all, when our students thrive, so does our commonwealth.

\$1 Billion Restoration for Education

The 2015-16 Budget sets Pennsylvania on a path to fully meet the commonwealth's responsibility for education funding.

The budget increases education funding and implements cost-saving reforms totaling \$1 billion for the 2015-16 school year. This investment includes:

- **A \$400 million (7.0 percent) increase in the Basic Education Subsidy.** This increase – the largest in Pennsylvania history – will fully restore the Accountability Block Grant and Educational Assistance Program funds that were previously cut. In addition, as part of the Basic Education Subsidy, school districts will receive a reimbursement for approximately 10 percent of their mandatory charter school tuition payments. Additional resources will be provided to help close the funding gap based on Basic Education Subsidy cuts instituted since the 2010-11 school year.
- **A \$100 million (9.6 percent) increase in the Special Education Subsidy.** This increase will continue Pennsylvania's transition to the formula enacted in 2014 reflecting the work of the bipartisan legislative Special Education Funding Commission. The budget incorporates that formula as a permanent component of the state's education law, known as the Public School Code.
- **A \$120 million (87.9 percent) increase in high-quality early childhood education to enroll more than 14,000 additional children in Pennsylvania Pre-K Counts and the Head Start Supplemental Assistance Program,** described in further detail below.

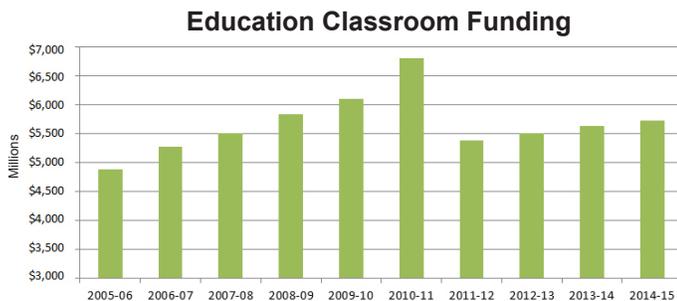
Looking to the Future: A Commitment for Ongoing Investment

The 2015-16 Budget is the first phase of a **four-year goal to increase overall pre-k–12 investment by \$2 billion** in order to meet the state's education commitments and provide all children with a quality public education.

Achieving this goal will be made possible by enactment of the **Pennsylvania Education Reinvestment Act**. This will raise needed new revenue for our state's public education system by imposing a reasonable tax – in line with our neighbors - on the extraction of natural gas within the state. The tax proposed in the Education Reinvestment Act will be modeled after the severance tax in neighboring West Virginia, which like Pennsylvania has seen a recent boom in production of natural gas from unconventional drilling. Implementing a similar structure to West Virginia will ensure

Schools that Teach (continued)

that Pennsylvania is competitive with neighboring states. In addition, this approach has the benefit of being field tested. West Virginia offers proof that a state can build a thriving unconventional natural gas industry while simultaneously using a portion of the proceeds to help make a better future for its citizens.



Pennsylvania currently ranks 45th in the nation in the percentage of funding the state provides for public education. With Pennsylvania sitting on one of the largest deposits of natural gas in the world, it is up to us to use this resource wisely so it benefits all Pennsylvanians and helps to fund our schools. Pennsylvania is currently the only major gas producing state in the country that does not charge a tax on oil and natural gas extraction – and the commonwealth is failing to tax this resource at a time when our schools need more funding.

A key component of the state’s education investment strategy is the **enactment of a real basic education funding formula**, which is currently being developed by a bipartisan Basic Education Funding Commission established by the General Assembly. The commission is expected to complete its work by June 10, and this budget envisions that a new funding formula will be enacted by June 30, 2015, to take effect for the 2016-17 school year.

Pennsylvania is one of only three states in the nation that does not have a school funding formula – which has left the state without a long-term strategy for financing its schools and, increasingly, shifted the burden to local property taxes. In finalizing a funding formula for Pennsylvania’s future, the commonwealth must achieve four critical goals:

- **Adequacy:** School districts need sufficient resources to prepare all students for college and careers. Schools that educate students with the greatest needs – including low-income students, homeless students, and students who are English language learners – require additional resources in order to help all students succeed.
- **Equity:** The state’s funding formula must distribute funds fairly so that communities with the greatest needs and least local wealth receive the most assistance from the state. An equitable formula also addresses factors such as tax burden, sparsity, regional cost differences and the challenges of fast-growing communities where the tax base may not be keeping up with increases in enrollment.

- **Predictability:** School districts should be able to reliably project the amount of state funding they will receive in the future so that they can be responsible stewards of taxpayer dollars and student achievement.
- **Accountability:** Along with increased resources, there must be accountability for how school districts invest these funds and for the ultimate impact on student learning and success. This issue is described in greater detail in the sections that follow.

Reaching a Historic Milestone

Combined with the landmark \$3.8 billion property tax reform plan included in the 2015-16 Budget, this renewed investment in public education will finally **bring Pennsylvania’s state share of education funding over the 50 percent threshold**.

As a recent study by the American Institutes for Research concluded, Pennsylvania “is consistently among the most regressively funded education systems in the nation” and “has among the region’s lowest state aid contributions to public school districts.” In fact, according to the U.S. Department of Education, Pennsylvania’s state share of total K-12 education funding is currently the sixth-lowest in the country.

The state’s failure to adequately fund schools for more than a generation has had two damaging consequences. Shifting the burden to local school districts has meant dramatic property tax hikes for Pennsylvania homeowners, threatening economic security for middle-class families and seniors and damaging communities. In addition, stark disparities in local wealth have led to dramatic school funding inequities – often leaving the students with the greatest needs in the worst-funded schools.

By reversing these damaging trends, Pennsylvania will strengthen both its communities and its public education system – laying the groundwork for student success and economic revitalization.



Schools that Teach (continued)

Strengthening Pennsylvania's Accountability System

It is time for a renewed focus on strong and fair accountability at all levels – 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 public confidence in the performance of our schools.

As part of the 2015-16 Budget, appropriate accountability measures should be enacted by the end of June in concert with the state's new basic education funding formula and in partnership with the Basic Education Funding Commission and other members of the General Assembly. This process should address both academic and fiscal performance and must recognize that school and district leadership are the lynch pin of effective transformation strategies.

In addition, as one component of this larger accountability agenda, the 2015-16 Budget includes new accountability provisions to ensure the public's return on investment and maximize the impact of new funding to increase student achievement. School districts that receive significant Basic Education Funding increases will be required to invest in their choice of evidence-based programs, in addition to restoring other cuts to programs and personnel that school districts were forced to make as a result of state budget cuts. These school districts will also be required to demonstrate the impact these investments have on quantifiable student performance goals.

Investing in High-Quality Early Childhood Education

Children who participate in high-quality pre-kindergarten perform better in school, graduate at higher rates and earn more throughout their lives compared to peers who do not have access to early learning programs.

poverty level – or \$71,550 for a family of four – are enrolled in high-quality pre-k programs. The evidence shows that the commonwealth's hallmark pre-k program – Pennsylvania Pre-K Counts – is working. In 2013-14, when children who were enrolled in Pre-K Counts in 2009-10 reached third grade, they out-performed their economically disadvantaged peers in both math and reading.



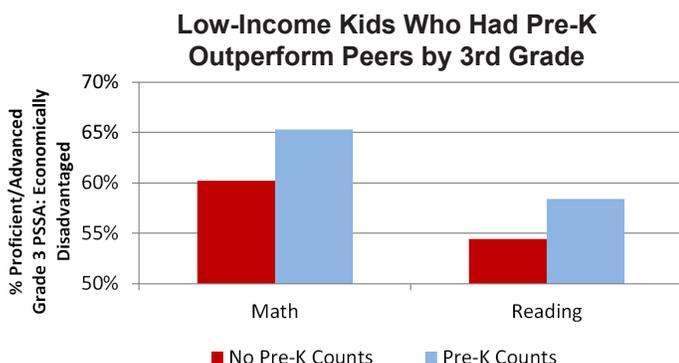
The future success of Pennsylvania's children depends on dramatically expanding access while continuing to emphasize quality. The 2015-16 Budget represents a down payment on the goal of universal high-quality pre-kindergarten for Pennsylvania's 3- and 4-year-olds. By **investing an additional \$100 million in Pre-K Counts and \$20 million in the Head Start Supplemental Assistance Program, Pennsylvania will increase enrollment in these high-quality programs by at least 75 percent.**

In addition to this historic expansion, the 2015-16 Budget will take important steps to continue to modernize the commonwealth's child development and early learning system – which is already recognized as a national leader – to further enhance quality and improve services to families.

Cyber Charter Funding Reform

Cyber charter schools are fundamentally different from traditional brick-and-mortar charter schools, and the 2015-16 Budget advances cyber charter funding reform to reflect these structural realities. School districts spent \$421 million on mandatory cyber charter tuition payments in 2013-14; under this reform plan, **school districts would have realized more than \$160 million in savings** to reinvest in the classroom.

Pennsylvania's 14 cyber charter schools enroll fewer than 40,000 students and – 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 2015-16 Budget establishes a rational funding formula specifically for cyber charter schools:



Since 2003, Pennsylvania has joined the ranks of states that offer full-day pre-kindergarten to 3- and 4-year-olds and, today, approximately 30 percent of Pennsylvania children in families earning up to three times the federal

Schools that Teach (continued)

- **Regular Education Tuition:** To better reflect the cost structure of online learning, the state looked to the programs currently offered by Pennsylvania's Intermediate Units that provide full-time online learning opportunities for students. Based on the highest-cost of several high-performing, comparable IU online education programs – and then further enhanced by 10 percent to reflect administrative and overhead costs that cyber charter schools could reasonably incur – the budget sets the regular education tuition rate for cyber charter schools at \$5,950. This rate would be annually adjusted to reflect inflation.
- **Special Education Tuition:** The budget applies the formula recommended by the Special Education Funding Commission to cyber charter schools. In the first year, the special education tuition rates would provide an additional \$3,035 for special education students who are identified as Category 1 (representing approximately 95 percent of all cyber charter special education students); an additional \$16,482 for Category 2 students; and an additional \$38,437 for Category 3 students.

The 2015-16 Budget also recommends two additional reforms for both cyber charter and brick-and-mortar charter schools:

- **Making the pension “double dip” prohibition permanent.** The General Assembly previously enacted bipartisan reform to stop 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 as described further in the Government that Works theme.

- **Reimbursement based on audited costs.** By the end of the 2013-14 school year, charter and cyber charter schools had amassed undesignated, unreserved fund balances of more than \$156 million because they collected more in tuition revenue than they actually spent on students. The 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.

Maximizing Tax Dollars to Invest in the Classroom

Pennsylvania school districts spend more than \$3 billion each year on administrative staff, back-office operations, transportation and other central office costs. While these functions are of course necessary, school districts should work to maximize the resources that are invested directly in teaching and learning.

With 500 school districts, two of the strategies that have held the most promise for achieving cost-savings are the use of shared services and joint purchasing. Many school districts and Intermediate Units already participate in these efforts – covering expenses like energy, health care and building supplies.

Consistent with the state's GO TIME savings and productivity initiative, the commonwealth will challenge school districts to work together and with their Intermediate Unit partners to achieve \$150 million in additional savings through shared services and other efficiency strategies.



Government that Works

Public trust in the integrity of government has continued to erode in recent years and the commonwealth's first order of business is to restore that trust.

We have learned from experience that cutting government is not synonymous with improving government. This budget looks for efficiencies and innovations to transform the way we do business without sacrificing our fundamental commitment to provide high-quality services to our citizens. It identifies new tools and approaches for the delivery of public services.

The 2015-16 Budget takes immediate steps to put the state's fiscal house in order. It eliminates our structural budget deficit and responsibly funds our pension obligations. Our pension plan reduces debt obligations, while providing savings to the state and school districts to manage future cost increases.

Government must work for all our citizens. Our plan expands access to affordable health care, strengthens our health care delivery system, and saves hundreds of millions in state costs during the next fiscal year. It provides answers to the challenges for seniors who want to remain in their homes as they age, so they can do so safely and securely.

Finally, our budget plan improves public safety, while reducing the growth in our prison population and making offender reentry into the community more successful and permanent.

Ethics Reform

The citizens of the commonwealth must be able to trust in the integrity of their government, and this budget reflects a commitment to transparency and good governance.

The governor's first Executive Order amends the Governor's Code of Conduct for Commonwealth Employees to establish a strict gift ban, clarifying that no employee may accept gifts, favors or other things of value from any person doing or seeking to do business with the commonwealth. This high standard will help to build public trust by removing even the appearance of impropriety.

The governor's second Executive Order requires the Office of General Counsel to award contracts for legal services, in circumstances where outside counsel is needed, through the use of competitive bidding. Requiring submission of proposals both makes the selection process more open, and ensures that the most qualified candidate will be selected.

Improving Government Efficiency

This budget will deliver services more efficiently, eliminate unnecessary and redundant programs, reduce costs and change the way business is conducted to assure taxpayer dollars are spent wisely.

The Governor's Office of Transformation, Innovation, Management and Efficiency (GO TIME), established to bring forward-thinking and best management practices to state government, will save taxpayers more than \$150 million in the next year. Substantial savings have already been identified in just a few short weeks. The public will be able to monitor its progress and track savings through an online database.

In 2015-16, the Office of Administration and Department of General Services will implement efficiencies which include:

- Reviewing \$3 billion in existing state contracts and applying commercial best practices to save more than **\$100 million** in procurement in 2015-16.
- Reintroducing reverse auctions, an innovation started in Pennsylvania, to negotiate supply contracts, which will help the commonwealth to receive the best price in the marketplace and save tens of millions of dollars in the next year.
- Modernizing the technology used to manage \$1 billion in building and infrastructure projects administered by the Department of General Services to generate **\$3 million in annual savings**. Pennsylvania will move away from its current paper-based construction management process and employ an up-to-date contract enablement system to reduce costs and improve timeliness of projects for both contractors and the commonwealth.

Since the launch of GO TIME, agencies and state employees have submitted more than 150 ideas to make government work more efficiently, and modernization strategies that will transform agency operations have been identified that will save millions annually. For example, consolidation of the commonwealth's 28 disparate mailrooms will result in **\$5 million** in annual savings.

Pay for Success Performance Contracts

Decades of research have demonstrated that public investment can improve the lives of Pennsylvanians while simultaneously strengthening the state's bottom line. From pre-kindergarten – where every \$1 in public funding generates more than \$7 in government savings and benefits – to public safety – where reducing recidivism avoids costs of \$42,481 per inmate each year – there are opportunities for evidence-based investments across state government.

Pay for Success performance contracts – also known as “Social Impact Bonds” – provide an innovative strategy to finance these proven programs. Pay for Success contracts are rigorous, binding agreements based on a straightforward proposition: taxpayers will only pay for services that actually get results and save money in the long-run. The strategy enables the state to fund programs and services that improve economic opportunity, health and safety that it otherwise

might not be able to afford in the short-term, and it requires strict limitations based on which programs have a strong evidence base and record of effectiveness.

Under Pay for Success, the commonwealth selects the programs and sets the targets, private investors raise the funds, and payment only occurs if and when savings are realized.

Pay for Success projects on homelessness, early childhood education and recidivism are currently underway in six states, counties and cities across the country, and many more are in development. This budget enables Pennsylvania to enter into Pay for Success contracts in five high-priority areas:

- Early childhood care and education, including pre-kindergarten education and services that address maternal and child outcomes from pregnancy through age 2;
- Education, workforce preparedness and employment, including school-to-work programs and alternative education services;
- Public safety, including programs that reduce recidivism;
- Health and human services, including addiction treatment, chronic homelessness, supportive housing and child welfare; and
- Long-term living and home- and community-based services.

These public-private partnerships will be selected on a competitive basis, and payment will only occur after validation by an independent, third-party evaluator.

Real Pension Solutions to Protect Taxpayers and Safeguard Retirement Security

Plotting an effective pension reform strategy first requires a fundamental understanding of how we fund our current pension plans for state employees through the State Employees Retirement System and school employees through the Public School Employees Retirement System. During the past several years attention has appropriately been focused on a growing unfunded liability now totaling more than \$50 billion. This unfunded liability, a state debt we owe to our state employees and public school employees, is a legal and constitutional responsibility that we must pay.

The 2015-16 Budget plan outlined below provides a prudent approach to meet this challenge. The three-part strategy would first institute pension investment reforms to significantly reduce excessive management fees and overreliance on high-risk investment strategies. The plan eliminates “double dip” payments to charter schools

permanently by amending our school code, and guarantees all actuarially required employer obligations are paid in full.

The strategy provides the state and local school districts with a manageable plan to fully fund their employer contributions while maintaining the ability to meet all other obligations. The recommended initiatives will produce savings to reduce our total long-term liability by more than \$10 billion. More immediate savings will reduce employer obligations by nearly \$1.3 billion during the next five years, including nearly \$370 million in savings for school districts and more than \$900 million for the state.

Most importantly, beginning in the 2016-17 fiscal year, future employer payments to SERS and PSERS will fully fund employer obligations and will begin to reduce the outstanding unfunded liability. Annual payments for both systems will continue to increase, but only modestly, and not beyond normal inflationary amounts.

Building upon comprehensive bipartisan reforms previously enacted in 2010, the plan is respectful of legal and constitutional constraints to protect future retiree benefits.

Financial reforms include establishing a restricted account to guarantee all future employer obligations are paid in full. A portion of the current unfunded liability for PSERS would be refinanced to take advantage of historically low interest rates, with all savings reinvested to reduce that liability.

Modernizing Pennsylvania’s Wine and Spirit System

Pennsylvania’s Wine and Spirits system is an asset to the state and its taxpayers, now providing \$550 million annually in profit and tax revenue to support enforcement, drug treatment, and General Fund obligations.

Rather than selling the system for short term gain, the budget plan provides the Liquor Control Board with the tools it needs to modernize our Wine and Spirits system. Reforms include adding Sunday hours, identifying the most convenient locations for customers and competitive pricing. This will result in improved customer convenience and significantly increase the profitability of the existing system.

New revenue from modernization will be allocated to help school districts and the state address their future pension obligations. In 2016-17, \$80 million in new profits from liquor modernization will be allocated to school districts to reduce pension payments.

Beginning in 2017-18, \$185 million in increased profits from our LCB system will be transferred annually to pay the full cost of debt service on a \$3 billion bond to refinance part of the unfunded PSERS liability.

Caring for our Most Vulnerable Residents

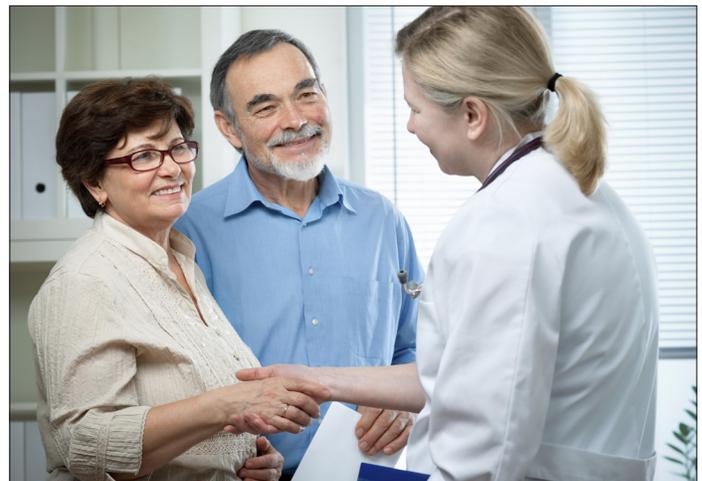


With one of the oldest populations in the nation, the commonwealth must identify successful programs that allow our seniors to age with dignity. A 2010 survey by AARP-Pennsylvania found that 95 percent of aging Pennsylvanians would prefer to receive care in their home. The 2015-16 Budget reflects a commitment to increase opportunities for seniors to age in place and to strengthen the home care workforce.

- **Expand Services for Older Pennsylvanians.** The budget expands home and community-based long-term care programming by directing an additional **\$31 million** to the Department of Human Services (DHS) and **\$7.3 million to the Department of Aging (PDA) to enable more than 5,500 additional individuals** to obtain care in their homes this year. With this expansion, the commonwealth will hit a major marker – more than 50 percent of residents receiving long-term care will do so in a home or community setting. Not only is this expansion essential to respecting residents' preference on where to receive care, but it is also a fiscally responsible move for the commonwealth. For every month a resident receives care in the community as opposed to a nursing facility, the state is able to save \$2,457, offsetting more than \$162.2 million in nursing care costs.
- **Implement Managed Care Long-Term Care within Three Years.** DHS, in partnership with PDA, will pursue the implementation of managed long term care through engaging stakeholders to ensure that the system is person-centered, breaks down barriers and fills in the gaps that currently exist in the long term care services and supports system. This initiative, which was recommended by the Pennsylvania Long-Term Care Commission, will result in a more strategic care delivery system and improve health outcomes for seniors.

- **Implement an Online Home Care Registry.** Not only do we need to expand programs that allow seniors to remain in their own homes when possible, we also need to ensure that we are growing and professionalizing the home care workforce. According to PHI PolicyWorks (PHI), Pennsylvania's direct care workforce in 2013 consisted of 194,670 workers. Between 2012 and 2022, the direct care workforce is projected to grow by 33 percent. PDA is currently working to develop an online tool, which will make it easier for workers to find stable employment opportunities and for consumers to find competent care.
- **Reduce waiting lists for individuals with physical and intellectual disabilities.** The budget includes a total of **\$45.9 million** to reduce waiting lists and expand services for vulnerable Pennsylvanians. Included is an **additional \$19.3 million** to provide home and community-based care to 1,050 individuals with intellectual disabilities and autism, and **\$12.8 million** to fully annualize the 2014-15 program expansion.

Closing the Health Care Coverage Gap – Medicaid Expansion



This budget expands Medicaid into a single consolidated system, closing the coverage gap for hundreds of thousands of working adults, and reducing state General Fund costs by more than \$500 million next year. The consolidation plan will streamline delivery of health care services to alleviate confusion and remove unnecessary red tape to ensure that individuals experience no loss of coverage, and move toward better health outcomes for Pennsylvania residents.

Covering More Kids

Pennsylvania led the nation in establishing the Children's Health Insurance Program, which today provides health coverage to 147,000 children from birth to age 21. This budget expands coverage to an additional 15,881 children, while requiring fewer state dollars, as federal matching rates

Government that Works (continued)

grow from 66 percent to 89 percent, providing \$63 million in additional federal assistance to support program expansion.

Treatment to Combat Increase in Heroin Use

Law enforcement, treatment professionals and families have all expressed alarm at the growth in heroin use and opioid addiction. This budget provides a **\$2.5 million increase** to Behavioral Health Services for a total of \$46.2 million, and a **\$5 million increase** to the Department of Drug and Alcohol Programs to launch new initiatives aimed at addressing this epidemic.

Make Pennsylvania Safer

The Pennsylvania Department of Corrections and the Board of Probation and Parole have a common vision: to ensure public safety by successfully reintegrating offenders

into the community. This budget will consolidate the two agencies, creating a new department, to eliminate duplicative administrative oversight and provide better outcomes. A unified approach will offer a seamless transition from facility to the community and reduce recidivism rates resulting in lower crime rates and safer Pennsylvania communities.

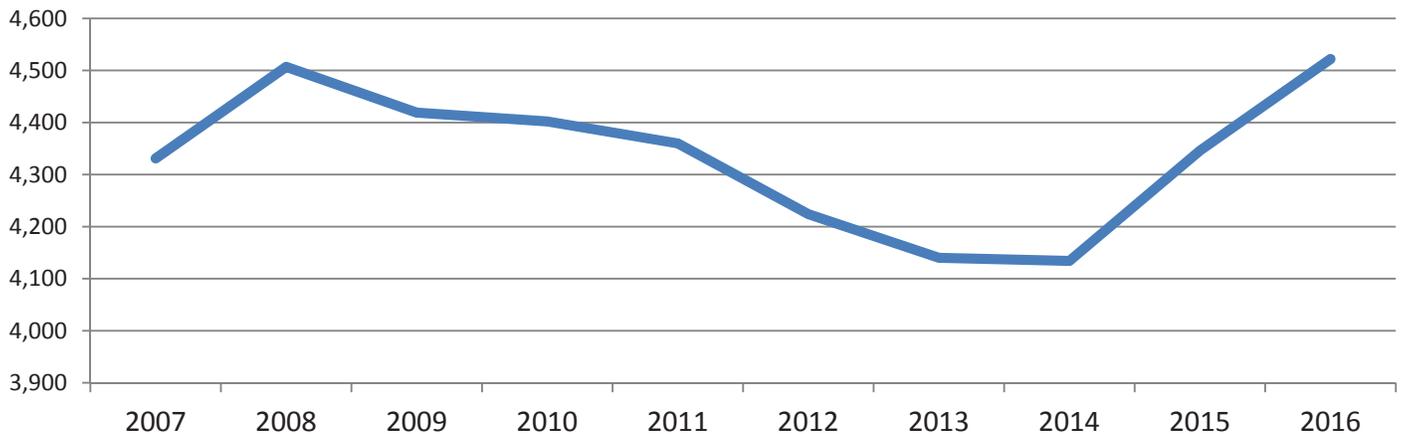
The consolidation, which will occur by the end of the 2015-16 fiscal year, will not impact the Board of Probation and Parole's independent parole granting authority.

The budget funds four classes of Pennsylvania State Police Troopers, or 350 new cadets, to increase strength despite expected retirements and turnover. By year end, the resulting graduates will increase the estimated filled Trooper complement level to the highest point in ten years.



Estimated Filled Trooper Complement Levels

As of June 30 of Each Year



General Fund Financial Statement

Dollars in Millions

	2013-14 Actual	2014-15 Available	2015-16 Budget
Beginning Balance.....	\$ 541	\$ 81	\$ 9
Adjustment to Beginning Balance.....	6	. . . . .	. . . . .
Revenues:			
Receipts	\$ 28,607	\$ 30,177	\$ 30,625
Proposed Revenue Changes.....	. . . . .	. . . . .	4,662
Transfer to School Employees' Retirement Restricted Account .....	. . . . .	. . . . .	-1,750
Transfer to Property Tax / Rent Relief Account.....	. . . . .	. . . . .	-2,140
Severance Tax Transfers .....	. . . . .	. . . . .	-10
Refunds	-1,105	-1,287	-1,383
Prior Year Lapses.....	427	89	. . . . .
Funds Available	\$ 28,476	\$ 29,060	\$ 30,013
Expenditures:			
Total Appropriations.....	\$ 28,424	\$ 29,027	\$ 29,884
Supplemental Appropriations.....	173	81	. . . . .
Current Year Lapses.....	-202	-60	. . . . .
Total State Expenditures.....	\$ 28,395	\$ 29,048	\$ 29,884
Preliminary Balance.....	\$ 81	\$ 12	\$ 129
Transfer to Rainy Day Fund .....	. . . . .¹	-3 ²	-32
Ending Balance.....	\$ 81	\$ 9	\$ 97

¹ Act 126 of 2014 suspended the 25 percent transfer to the Budget Stabilization Reserve (Rainy Day) Fund for 2013-14.

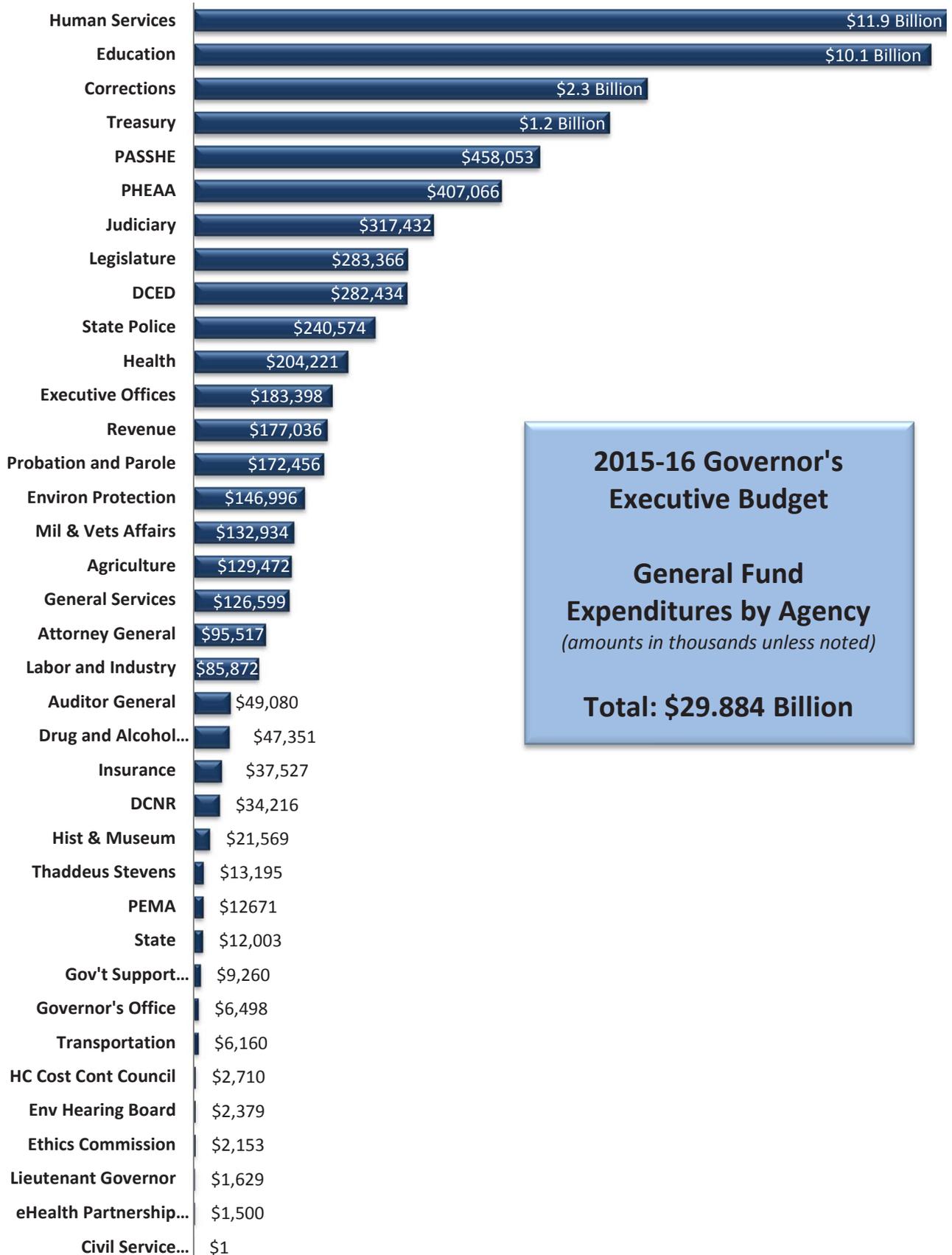
² This budget reinstates the 25 percent transfer to the Budget Stabilization Reserve (Rainy Day) Fund for 2014-15 and 2015-16.

General Fund Revenue Sources

Dollars in Millions

Source	2013-14 Actual	2014-15 Estimated	2015-16 Estimated
Personal Income Tax	\$ 11,437.3	\$ 11,950.6	\$ 12,829.0
Sales and Use Tax	9,129.6	9,573.9	9,710.8
Corporate Net Income Taxes	2,501.6	2,711.1	2,487.7
Capital Stock and Franchise Taxes	320.2	221.9	96.4
Gross Receipts Tax	1,279.2	1,281.8	1,296.1
Cigarette Tax	976.9	923.2	1,228.9
Other Taxes	2,453.3	2,631.9	3,239.0
Non-Tax Revenues	509.1	882.1	499.6
Total Receipts	\$ 28,607.2	\$ 30,176.5	\$ 31,387.5
Difference from prior year	\$ -39.8	\$ 1,569.3	\$ 1,211.0
Percentage Difference	-0.1%	5.5%	4.0%

General Fund Expenditures by Agency



2015-16 Motor License Fund

INCOME

(Dollars in Millions)



Liquid Fuels Tax – \$1,677

Licenses and Fees – \$923

Other – \$45

Total Income	\$2,645
Beginning Balance....	106
TOTAL	\$2,751

OUTGO

(Dollars in Millions)



Highways & Bridges – \$1,321

State Police – \$739

Local Subsidy – \$301

Other – \$201

Licensing & Safety – \$147

Debt Service – \$29

Total Outgo	\$2,738
Ending Balance	13
TOTAL	\$2,751



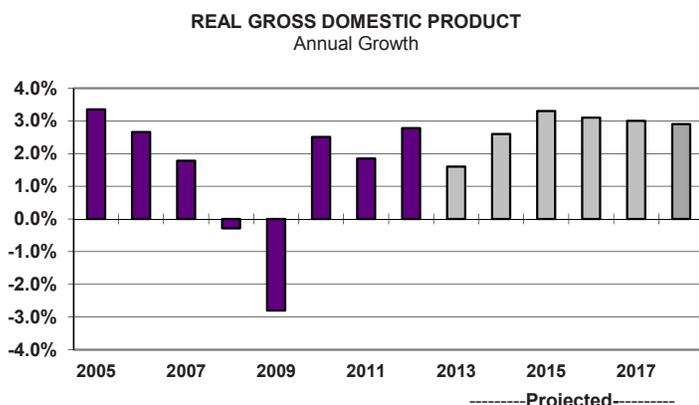
Economic Outlook

Economic forecasts are a key element in constructing the 2015-16 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 2014. The Bipartisan Budget Act of 2013 provided relief from the spending sequester and eliminated the chance of another government shutdown in the near future. This, along with a number of other positive economic indicators, has helped to produce a strong 2014 third quarter real GDP growth (5.0%). The improved economic fundamentals of the third quarter – the strongest growth since the third quarter of 2003 – contributed to this outstanding performance. While all areas of aggregate categories made strong contributions, the service sector made the strongest impact contributing 4.57 percentage points to GDP.

GDP has rebounded and is forecast to grow approximately 2.8 percent annually over the next five years as shown in Chart 1.



Although the unemployment rate has decreased, the majority of the jobs recovered or created nationwide, six out of ten, according to U.S. Labor Department data, are at the low end of the wage scale.

The Forecast

Table 1 summarizes U.S. Macro Forecast projections from IHS Global Insight and this summary depicts for the near term a similar forecast to the one discussed by the Congressional Budget Office (CBO) document, "The Budget and Economic Outlook: Fiscal Years 2015 to 2025".

In the CBO outlook, economic growth is projected to be 2.5 percent in 2015 and averages 2.2 percent per year in 2016 through 2019. That growth closes the gap between actual and potential GDP by 2017. As a result of stronger economic growth, the unemployment rate in CBO's forecast

falls from 5.7% in the fourth quarter of 2014 to 5.5% in the fourth quarter of 2015 and then declines gradually to 5.4% in the fourth quarter of 2018.

The quickening of economic growth in 2015 reflects CBO's projections of continued improvements in households' 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 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 during 2015. 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 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 during 2015.

Table 1 confirms the expected outlook for lower unemployment and an increase in GDP.

Table 1

Forecast Change in Key US Economic Indicators Annual Percentage Growth*				
Indicator	2013p	2014p	2015p	2016p
Nominal GDP	3.7	4.0	4.9	4.6
Real GDP	2.2	2.4	3.1	2.7
Real Personal Consumption	1.6	1.7	2.3	2.1
Corporate Profits (After Tax)	4.7	4.7	5.8	0.0
Unemployment Rate (Rate)	7.4	6.2	5.5	5.3
CPI	1.5	1.6	0.1	2.3
Federal Funds (Rate)	0.10	0.10	0.40	1.6

* Assumptions in this chart, as well as other assumptions, are incorporated in the 2015-16 fiscal year revenue estimates.
p = projected

Economic Outlook (continued)

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 70 percent probability of modest GDP growth, with an increase in consumer and business fixed investment. Table 2 also provides narrative for each economic indicator.

Pennsylvania Outlook

Pennsylvania benefits from a highly diversified economy with a mix of industries, and no one single employment sector dominates Pennsylvania. Pennsylvania's economy 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.

Table 2

U.S. Macro Forecast Projection from IHS Global Insight January 2015

Baseline Forecast (70% Probability)	
GDP Growth	Modest growth, 3.1% in 2015 and 2.7% in 2016
Consumer Spending	Modest, up 3.4% in 2015 and 3.0% in 2016
Business Fixed Investment	Moderate, up 4.8% in 2015 and 5.4% in 2016
Housing	Gradual improvement, more than 1.2 million starts by end of 2015
Exports	Modest growth, 3.9% in 2015 and slowing to 3.3% in 2016
Monetary Policy	The first federal funds rate hike occurs in the second quarter of 2015
Consumer Confidence	Growing at a moderate pace
Oil Prices (Dollars/barrel)	Brent crude oil price averages \$64 in 2015 and rises to \$75 by late 2015
Stock Markets	The S&P 500 advances moderately
Inflation (CPI)	Headline CPI inflation registers only 0.2% in 2015, as lower oil prices take effect; core CPI inflation reaches 2.0% in 2015
U.S. Dollar	The dollar appreciates against the euro and the yen in 2015, while rate hikes in the UK and Canada will help those currencies rise against the dollar

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

Table 3

Key Economic Indicators for Pennsylvania

PENNSYLVANIA: Key Economic Indicators	2013	2014	2015	2016	2017	2018
Real Gross State Product (in millions, 2005 dollars)	603,872	611,216	624,676	637,469	650,560	663,034
Real Gross State Product (percentage change)	0.7%	1.2%	2.2%	2.0%	2.1%	1.9%
Total Employment (in thousands)	5,743.5	5,784.4	5,858.7	5,940.0	5,990.0	6,009.8
Total Employment (percentage change)	0.3%	0.7%	1.3%	1.4%	0.8%	0.3%
Manufacturing Employment (in thousands)	563.5	559.5	563.5	571.1	575.4	575.0
Nonmanufacturing Employment (in thousands.)	5,180.0	5,224.9	5,295.1	5,368.9	5,414.6	5,434.8
Unemployment Rate (percentage)	7.4%	5.7%	5.2%	5.2%	5.1%	5.2%
Personal Income (percentage change)	1.4%	3.4%	4.1%	4.7%	5.1%	4.5%
U.S. ECONOMY						
Real Gross Domestic Product (percentage change)	1.8%	2.3%	3.0%	2.6%	2.6%	2.3%
Employment (percentage change)	1.7%	1.7%	2.0%	1.8%	1.3%	0.7%