



2017 – 2018 Governor's Executive Budget-in-Brief

Governor
Tom Wolf

SCHOOLS THAT TEACH.

JOBS THAT PAY.

GOVERNMENT THAT WORKS.





COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

February 7, 2017

To the People of Pennsylvania:

For too many years, politicians in Harrisburg have tried to do things the same way. We've taken a different approach by prioritizing important responsibilities like protecting our seniors, making sure children receive the quality education they need, working to reduce property taxes, joining with law enforcement and medical professionals to expand treatment to battle the opioid and heroin epidemic, and rebuilding Pennsylvania's middle class by putting more people to work.

In this year's budget, I am again proposing significant changes to the way Harrisburg has done business. The proposed budget includes over \$2 billion in cuts and savings and avoids any new taxes on Pennsylvania families, while maintaining the investments we have made in our schools, protecting seniors, fighting the opioid epidemic and supporting Pennsylvania's middle class.



This budget takes a hard look at state government and makes tough decisions. Just like when I was in business, this budget identifies savings and efficiencies, not just to reduce costs but also to better deliver services to the people of Pennsylvania. By merging health-related agencies, we will reduce bureaucracy and redundancy. Our current fragmented approach to providing benefits often leads to confusion for program applicants and their families. Consolidation of these services into bureaus within one, combined department will drive better outcomes, improve customer service and reduce costs. As we approach this budget, we should not think about how we have done things before, but how we can better deliver services for the people of Pennsylvania.

Through these savings and efficiencies, this budget protects our investments in our schools and our efforts to fight the opioid epidemic. Over the past two years, we have increased funding for Pennsylvania schools by nearly \$640 million while implementing a fair funding formula. This is a good start toward reversing the devastating \$1 billion in cuts made to schools during the previous administration, but there is still work to do. That's why I'm proposing additional investments in education at all levels.

Continuing to fight the opioid crisis will remain a top priority. The 2016-17 budget provided funding to implement 45 centers of excellence throughout the commonwealth that will treat nearly 11,000 people with substance use disorder. This budget builds on that effort by investing \$10 million to expand access to naloxone for first responders, and expands drug courts and treatment funding to make sure those affected by opioids can get the help they need.

My budget presents a plan for rebuilding our middle class and making government more efficient so that we can protect education, job creation programs, and services for our seniors and most vulnerable. It's clear that we need to do things differently if we want to move Pennsylvania forward.

I look forward to continuing to work with all members of the General Assembly to move our state forward.

Sincerely,

Tom Wolf



Commonwealth of Pennsylvania

2017-18 Budget in Brief

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

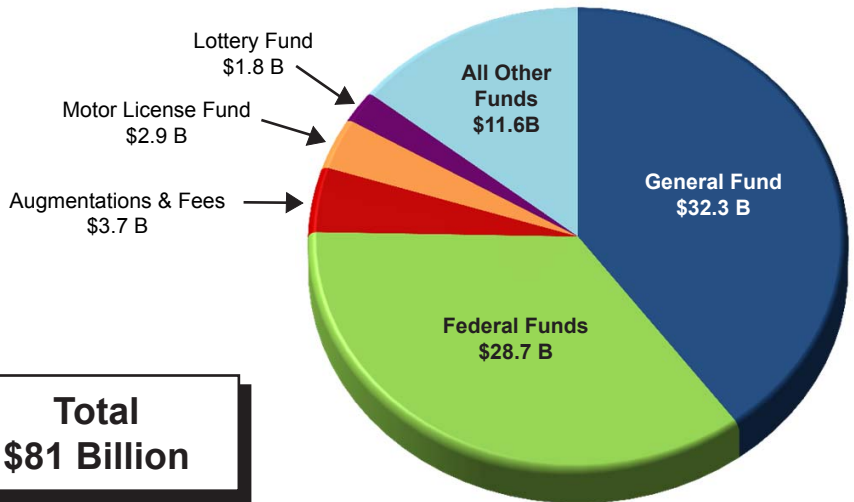
www.budget.pa.gov

See COMMONWEALTH BUDGET section.

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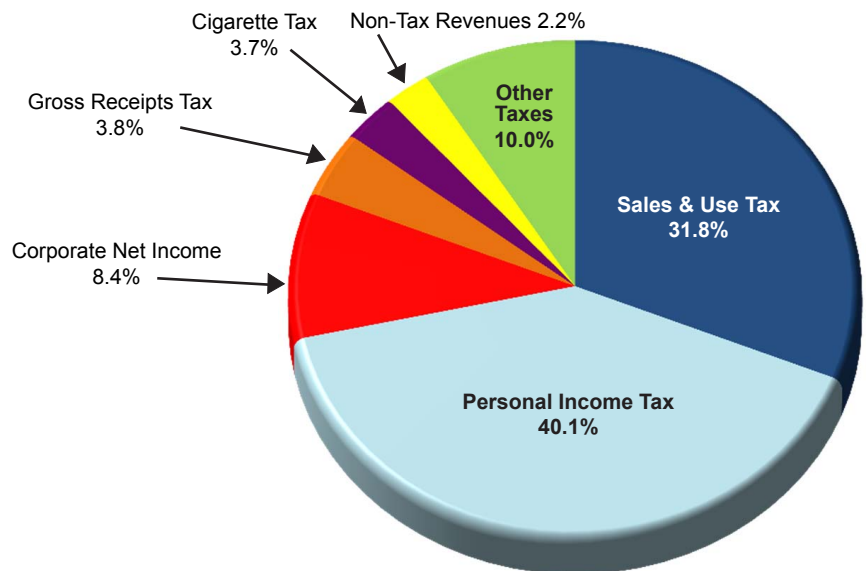
Budget Overview



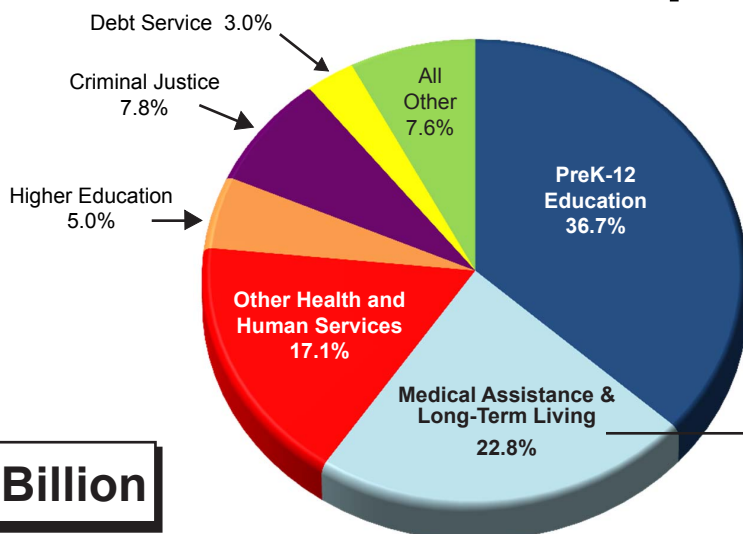
**Total
\$81 Billion**

Total Operating Budget

General Fund Revenues

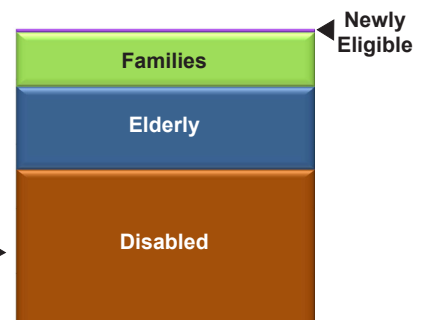


General Fund Expenditures



\$32.3 Billion

Medical Assistance & Long-Term Living Spending by Recipient Category



Budget Highlights

Since taking office, Governor Wolf has proposed balanced budgets that fund education and human services while investing in middle class job creation, programs for seniors, and drug treatment to fight the opioid crisis. This year's budget implements cost savings and spending reductions by changing how we deliver services. It provides funding for schools, makes key investments to drive job growth, and protects essential services to those most vulnerable, including senior citizens and the disabled, while maintaining public safety, transportation, and other essential services upon which middle class families depend.

- The General Fund budget is \$32.3 billion, an increase of \$571.5 million, or 1.8 percent over the prior year.
- The budget includes no broad-based tax increases.

Schools that Teach

- Provide Pre-K to 12 Education a \$100 million Basic Education increase, a \$25 million Special Education increase, and a \$75 million Pre-K and Head Start program increase.
- Update and simplify the Pupil Transportation funding formula to incentivize efficiency and better reflect costs.
- Provide \$2 million in state funds, leveraging \$1 million in federal funds, for school improvement efforts.
- Provide \$2 million in state funds, leveraging up to \$20 million in federal funds, to enhance current school breakfast programs.
- Provide an \$8.9 million increase for the 14 universities of the PA State System of Higher Education.

Jobs that Pay

- Manufacturing PA:
 - ✓ Establish partnerships among research universities and Industrial Resource Centers to create or retain 6,000 manufacturing jobs, leverage nearly \$30 million in matching funds and provide \$950 million of economic impact for manufacturers.
 - ✓ Establish an apprenticeship grant program to ensure workers receive training aligned to business workforce needs.
 - ✓ Establish a \$5 million manufacturing training-to-career-grant program.
- Create a “One-Stop Shop” for business, a single point of contact with state government that will improve interaction and help businesses start, expand and prosper.
- Strengthen the monitoring process for economic development grants to ensure accountability and maximum return on investment.
- Provide \$2.5 million through the business calling program to expand regular proactive outreach to businesses.
- Increase the minimum wage to \$12.00 per hour.
- Provide \$6.1 million to encourage Pennsylvania tourism.
- Provide \$11 million for Smart Cities grants to develop a network of smart corridors to improve connections between neighborhoods and major centers of employment and health care services.

Budget Highlights (continued)

Government that Works

- Administrative consolidations and savings:
 - ✓ Establish a new Department of Criminal Justice and merge program functions of the Department of Corrections and the Board of Probation and Parole.
 - ✓ Establish a new Department of Health and Human Services and merge program functions of the departments of Human Services, Health, Aging, and Drug and Alcohol Programs to encourage more effective collaboration and service delivery, enhance program effectiveness, reduce administrative costs, eliminate duplicative personnel resources, and maximize federal Medicaid reimbursement.
 - ✓ Provide more seamless service delivery and save taxpayers more than \$100 million.
- Complement and facility management savings – \$250 million.
- Continue GO-TIME efforts – a savings goal of \$500 million by 2020:
 - ✓ Share electronics grants software, leverage mobile technology to increase staff efficiency, modernize public works project management, leverage purchasing power, and decommission redundant software.
- Maximize current revenue sources without increasing taxes:
 - ✓ Divest unused property, enter into a lease-leaseback arrangement for the Farm Show Complex, bond fund selected grant programs, assess a fee on municipalities without local police coverage, and improve LCB operations and management to generate additional revenue.
- Protect middle class taxpayer dollars while closing loopholes:
 - ✓ Impose a competitively structured severance tax on natural gas, close loopholes so all insurers are taxed consistently, establish uniform Net Operating Loss provisions, eliminate special interest tax loopholes, and convert tax credit incentives into a block grant.
- Create a new, unified Department of Health and Human Services to coordinate service and enhance program effectiveness, while saving more than \$90 million:
 - ✓ Provide \$26.2 million to move individuals with intellectual disabilities and autism from the waiting list and into services.
 - ✓ Expand efforts to address the heroin and opioid epidemic including \$10 million to expand access to naloxone for first responders and \$3.4 million to expand specialty drug courts.
 - ✓ Provide \$2 million to establish an All Payer Claims Database to collect medical, pharmacy and dental claims, and eligibility and provider files from private and public payers.
 - ✓ Implement iLottery to ensure system competitiveness and revenue growth to support programs for older Pennsylvanians.
- Protect our safety:
 - ✓ Implement Justice Reinvestment II reforms – estimated savings of \$108 million over five years.
 - ✓ Maintain current year funding of \$1 million to support sexual violence prevention, reporting, and response efforts at postsecondary institutions.
 - ✓ Provide three additional State Police Cadet classes to address retirement and turnover in the PA State Police.
- Protect our environment:
 - ✓ Provide \$15 million in bond proceeds to fund watershed protection activities, including \$4.7 million for farm erosion and sediment management plans, \$8.3 million for local water quality efforts, and \$2 million to expand the Chesapeake Bay Riparian Forest Buffer Program.

Introduction

For many years, the commonwealth has faced grave budget challenges. The prior administration, when faced with these challenges, cut funding for schools and the most vulnerable while employing gimmicks to bring budgets into balance.

Since taking office, Governor Wolf has fought to change the way we do things in Pennsylvania. He has proposed balanced budgets that fund education and human services while investing in middle class job creation, programs for seniors, and drug treatment to fight the opioid crisis.

There has been progress. Following the protracted budget impasse, the commonwealth enacted a budget that made historic investments in education and provided much-needed resources in the fight against opioid abuse. Moreover, the budget took important steps to put Pennsylvania back on a path to fiscal responsibility and a sustainable future.

Building upon this bipartisan success, the governor and legislature worked together to address many of the commonwealth's most pressing needs, including:

- Enacting a fair funding formula for our schools while investing \$640 million to make sure students are getting the education they need;
- Providing health insurance for nearly 700,000 people, including 63,000 in treatment for substance use disorder;
- Enabling access to medical marijuana for commonwealth residents with serious medical conditions;
- Modernizing our liquor system to improve customer experience while increasing profits; and
- Establishing and executing a plan to combat the heroin and opioid epidemic.

While significant progress was made to address the financial challenges the commonwealth faces, more work remains. Revenues have come in below estimate and cost drivers continue to stretch our resources. To protect investments in our schools, improve services for seniors, and fight the opioid epidemic, this budget takes a different approach.

This year's budget takes a new look at Pennsylvania's government in the face of chronic budget deficits. While cutting spending and changing the way we deliver services, this budget still provides funding for schools and protects essential services to those most vulnerable, including senior citizens and the disabled, while maintaining public safety, transportation, and other essential services upon which middle class families depend.

The budget includes more than \$2 billion in cuts and savings by reinventing and reforming the way the public's money is spent. State support is provided for those programs deemed most essential to serve the citizens of the commonwealth. Program coordination and consolidation across all agencies will eliminate duplicative functions, leverage increased non-state resources, and improve services to customers through program delivery refinements.

While this budget takes steps to cut spending, it also makes investments in key priorities that will drive growth in Pennsylvania, including funding for early childhood education and K-12 learning. The budget continues to dedicate resources to combat opioid abuse and better coordinate treatment. It continues to invest in the people of Pennsylvania by training our workforce and funding job creation initiatives that work.

The governor, working with his entire cabinet, has identified more than \$2 billion in cost savings across seven broad categories as shown in the following chart:

2017-18 Savings Initiatives	Amounts in thousands
Prioritizing Agency Expenditures and Cost Efficiencies	\$ 767,000
Prudent Fiscal Management	493,000
Revenue Enhancements	314,000
Eliminating and Reducing Programs Outside Commonwealth's Core Mission	171,000
Complement Controls	143,000
Consolidation and Coordination	104,000
Facility Closures, Lease Management, and Facility Downsizing	104,000
TOTAL	\$ 2,096,000

Throughout the budget, and detailed within every agency, these overarching savings assumptions provide the financial means to support limited funding increases to grow support for local school districts, early learning and special education services, continue efforts to combat opioid abuse and better coordinate treatment, and provide for a better trained workforce. **However, total spending is otherwise constrained, growing by only 1.8 percent above the current year.**

Moreover, in the longer term, this budget would put the commonwealth back on a path of fiscal stability. **In future years, budget surpluses would grow annually to replenish nearly \$500 million in the commonwealth's Budget Stabilization Reserve Fund, commonly known as the Rainy Day Fund.**

Schools that Teach

Pennsylvania cannot get ahead if our schools fall behind. Fair and increased education funding for all Pennsylvania schools continues to be one of Governor Wolf’s top priorities to ensure students are college and career ready. Working with the legislature, the governor secured historic increases at all levels of education in his first two years in office, restoring the devastating funding cuts to the K-12 system made by the previous administration, including:

- \$415 million increase in Basic Education Funding;
- \$50 million increase in Special Education Funding;
- \$60 million increase for early childhood education;
- \$14.6 million increase for early intervention;
- \$81.4 million increase for PASSHE and state-related schools; and
- \$16.4 million increase for community colleges.

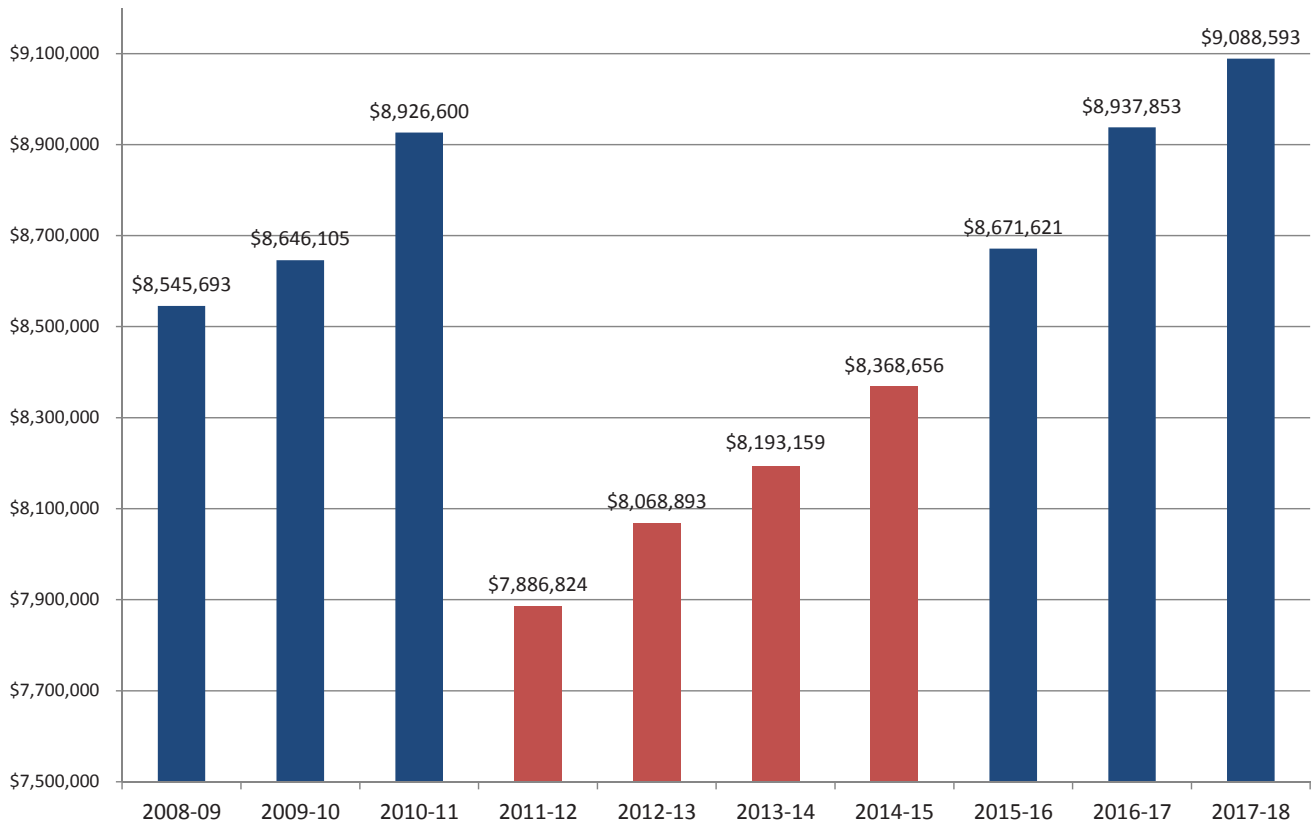
In June 2016, the governor signed Act 35 establishing a new funding formula to provide more predictable and equitable levels of basic education funding for school districts across the commonwealth. The formula considers both

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

The 2017-18 Budget provides increased funding for Pennsylvania schools to deliver high-quality education to every student across the state, regardless of zip code. Continuing investments in education include:

- **\$100 million increase in Basic Education Funding.** Following \$415 million in basic education and Ready to Learn Block Grant funding increases over the past two fiscal years, this increase will be distributed through the Basic Education Funding Formula, providing an equitable and predictable allocation to school districts across the commonwealth.
- **\$25 million increase in Special Education Funding.** This increase, allocated to school districts through the formula adopted by the bipartisan legislative Special Education Funding Commission, builds upon a \$50 million increase over the last two years.

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



Note: Excludes Authority Rentals and Sinking Fund Requirements.

Schools that Teach (continued)

- **\$75 million increase in high-quality early childhood education.** Children who participate in high-quality pre-k programs perform better in school, graduate at higher rates and earn more throughout their lives compared to peers without access to early learning programs. Building upon \$60 million in additional investment over the past two years, this nearly 40 percent increase in funding will allow more than 8,400 additional children to enroll in Pennsylvania Pre-K Counts and the Head Start Supplemental Assistance Program.
- **\$8.9 million increase for the 14 universities of the Pennsylvania State System of Higher Education.** The governor will continue to work with PASSHE to develop individual college plans that address performance, affordability, and accountability, while partnering with employers to create structured career pathways. (See *Jobs that Pay* for further information on the governor's plans to build bridges from high school to college and careers.)

Capturing Efficiencies in Pupil Transportation

School districts, intermediate units, and career and technology centers transport well over a million students each year. The formula which provides state funding to these entities for transportation of students to and from school was originally enacted in the PA School Code in 1972, with only slight modifications since then. Over the last decade, the number of students transported and the cost of fuel declined, while the number of buses and state subsidies for pupil transportation in Pennsylvania rose. This trend demonstrates how the current formula fails to accurately reflect changing demographics or incentivize districts and contractors to operate most efficiently.

As advances in vehicle fuel efficiency and falling gas prices continue to drive down the cost of transportation, the outdated formula continues to provide unbalanced reimbursements and exacerbate inefficiencies. Additionally, the complexity of the calculation makes it difficult for districts to predict year-to-year funding allocations. Updating and simplifying the funding formula will incentivize efficiency in fleet management and better reflect actual costs, including fuel prices, district geography, vehicle utilization, and transportation of special education students, while saving taxpayers \$50 million.

In addition to modernizing the funding formula, school districts will be encouraged to competitively bid pupil transportation contracts. Roughly 80 percent of pupil transportation in the commonwealth is provided through contracted services. A competitive procurement process will further drive down costs and reflects a continued commitment to transparency and accountability.

Strengthening Pennsylvania's Education Accountability System

For many years, school improvement efforts in Pennsylvania have revolved around sweeping labels of failure based on limited data and interventions without consideration of local context or community input. For the past two years, Governor Wolf and the Department of Education have forged an alternative path that builds on a comprehensive set of school performance indicators, emphasizes evidence-based strategies for school improvements, and focuses on resource equity.

The enactment of the federal Every Student Succeeds Act (ESSA) offers Pennsylvania a new opportunity to accelerate these efforts to support additional schools and students. ESSA requires states to develop accountability systems that provide meaningful differentiation on school performance but broadens the range of indicators beyond a narrow focus of pure academic achievement. ESSA provides Pennsylvania wide latitude in designing interventions for struggling schools, and PDE has leveraged that latitude by traveling throughout the commonwealth to engage stakeholders and gain first-hand insight into the challenges, needs, and successes of various communities.

To further address accountability and align with the goals of ESSA and the governor's vision of a holistic system focused on future academic and workforce success, the 2017-18 Budget proposes an additional \$2 million in state funding, leveraging \$1 million in federal funds, **for school improvement efforts** at three districts serving 15 persistently low-achieving schools. The funds will be used to conduct diagnostic audits to determine specific district and school needs, develop improvement plans, and prepare for implementation of those plans in the following school year. These districts will have three years to demonstrate improved performance. For those that fail to do so, the Secretary of the Department of Education will assess next steps, which could include placing the school under state control or closing the school.

Expanding Access to School Breakfast Programs

Research has demonstrated that breakfast is the most important meal of the day in impacting a variety of children's outcomes including academic progress and mental health. The 2017-18 Budget includes \$2 million in state funds to leverage and maximize up to \$20 million in federal funding to **enhance current school breakfast programs**. Competitive grants will prioritize efforts to encourage schools to adopt alternative breakfast delivery models, including "Breakfast After the Bell" (elementary school) and "Grab 'n' Go" (middle and high school) breakfast in the classroom. Funds will be targeted to those schools with student populations with more than 60 percent of children receiving subsidized meals. Nationally, less than half of students who are eligible currently receive a free or reduced-price breakfast.

Jobs that Pay

Governor Wolf is committed to ensuring Pennsylvania workers have the skills to succeed in the 21st century economy. Over the last two years, the governor has worked to increase the number of residents with college degrees and high-value industry-recognized credentials through the state's federally approved workforce innovation plan. Additionally, the governor has worked to expand economic opportunity for both residents and businesses.

The commonwealth offers a variety of economic development incentives to companies which commit to invest in Pennsylvania and create and retain jobs. Last year, the Department of Community and Economic Development approved nearly \$1.1 billion in low-interest loans, tax credits, and grants for projects across the commonwealth and secured private-sector commitments for the creation and retention of more than 245,000 full-time jobs. In the same time frame, the Governor's Action Team completed 77 projects – creating and retaining more than 36,800 jobs.

The 2017-18 Budget continues to invest in workforce development and training programs while also implementing new safeguards to ensure taxpayer dollars for economic development projects are spent appropriately and intended outcomes are met.

Manufacturing PA

Manufacturing is the third-largest industry in Pennsylvania employing over 550,000 workers with an average salary of \$72,500. The Manufacturing PA initiative links job training to career pathways, ensuring that training leads not simply to any job, but to careers that provide higher pay and opportunities for advancement.



Pennsylvania's 21st century economy is driven by highly skilled, highly trained workers. Research continues to demonstrate the value apprenticeship and other workforce training programs have in providing workers the opportunity to learn skills necessary to succeed in our modern economy, through on-the-job training. But these programs do not just benefit the workforce. Employers benefit by creating customized training which is tailored to their specific needs, and produces highly skilled employees. These programs

increase productivity, enhance employee retention, lower recruitment costs and provide workers with the skills needed to compete for good-paying jobs.

Through Manufacturing PA, the 2017-18 Budget **partners the commonwealth's research universities and Industrial Resource Centers** to accelerate manufacturing technology advancement and adoption, foster manufacturing innovation and commercialization, and build a 21st century workforce. This partnership will create or retain 6,000 manufacturing jobs, leverage nearly \$30 million in matching funds and provide \$950 million of economic impact for manufacturers.



A new **apprenticeship grant program** is established to ensure workers – both those leaving the K-12 education system as well as those transitioning into a new sector – can receive training aligned to business workforce needs. This initiative will be funded with revenue recovered by DCED from companies that fail to live up to previous commitments made when they received state assistance. Businesses can seek grant funding of up to \$2,000 for each apprentice employed pursuant to an apprenticeship agreement registered with the Office of Apprenticeship in the United States Department of Labor.

Building upon the recent enactment of a Manufacturing Tax Credit to encourage high-tech manufacturing growth, the 2017-18 Budget includes \$5 million for a **manufacturing training-to-career grant program**. Through this new grant program, manufacturing businesses will receive funds to partner with technical programs and community colleges to develop new training programs that align with their workforce needs. In addition to expanding manufacturing training opportunities, these programs will offer apprenticeship programs, on-the-job training opportunities or paid internships.

While this budget continues to take important steps toward ensuring that Pennsylvania workers have the necessary skills to compete in a 21st century economy, more work must be done. To that end, the governor will call

Jobs that Pay (continued)

for the **creation of a Middle Class Task Force**, composed of industry and policy experts as well as residents, to make future policy recommendations to improve the lives of our hard working, middle class families.

Cutting Bureaucracy for Small Businesses

As a former business owner, Governor Wolf understands the challenges businesses can face interacting with government. Further efforts to make this interaction as hassle free as possible must be a top priority to continue to encourage business establishment or expansion. The need for businesses to interact with multiple state agencies to obtain certificates of incorporation, apply for start-up grants, and file financing statements often complicates this process. These overlapping bureaucratic steps stifle innovation and limit job creation.

To address this concern, business should have a single, centralized point of contact when interacting with state government. To create a one-stop shop for business, DCED will work with other state agencies that interface with the business community to become the point of entry for more of these services. The mission of this office will be to cut through red tape by centralizing licensing processes, working with businesses to better understand other requirements under the law such as Workers' Compensation, Unemployment Insurance and tax filings, and providing small businesses and other job creators with information on services the commonwealth provides to help them grow.

Protecting Jobs and Taxpayers in Pennsylvania

As previously noted, Pennsylvania's economic development projects provide tremendous value to the state. But, it is critical that they are monitored scrupulously to ensure that every taxpayer dollar is being spent wisely to provide maximum return on investment. Businesses that receive state funding to expand economic opportunity must be held accountable for the use of those dollars.

DCED already collects millions of dollars annually from companies who fail to meet their previously agreed upon commitments. These policies will be further strengthened, particularly for companies that relocate out of state, to ensure our focus is on creating jobs that pay.

Specifically, DCED will make the following changes to our job creation grant programs:

- Companies receiving state economic development grants will be required to maintain any job created through receipt of a state grant for no less than five years, and to maintain operations within the state for no less than eight years.
- Where a company commits to create jobs, and fails to make progress towards its obligations, the state will require full repayment of the grant amount.

- If a company receives a grant from the state and subsequently moves operations out of Pennsylvania, DCED will require full repayment of the grant, as well as a 10 percent penalty.
- DCED will revise the formula by which it pursues recovery in the event a company does not achieve its full commitment to prioritize job creation.
- Finally, DCED will strengthen its contract language to implement the requirements above and ensure that all parties understand their responsibilities up front.

Business Retention and Expansion Program

Through our Partnerships for Regional Economic Performance program, Pennsylvania supports strong economic and workforce development partners operating within a regional delivery system. However, this system could be further strengthened through additional business outreach efforts and proactive steps for business engagement.



Attracting new business investment to our commonwealth is important, but the state must prioritize resources on supporting businesses that already have their roots here in Pennsylvania. This is smart policy – helping businesses already operating in Pennsylvania to retain or expand their footprint here costs a fraction of what is required to attract new businesses to the commonwealth. Studies suggest an estimated 80 percent of jobs and capital investment result from existing business investment. A coordinated, systematic retention program can also provide helpful feedback on what is working and what is not when evaluating current state efforts. **Through the business calling program, as part of the 2017-18 Budget, DCED will invest \$2.5 million to expand regular proactive outreach to Pennsylvania businesses.**

Jobs that Pay (continued)

Increasing the Minimum Wage

A minimum wage increase to \$12.00 per hour supports local businesses, creates new jobs and would boost state revenue by roughly \$95 million annually. Pennsylvanians who work full time at the minimum wage earn \$15,080 annually, leaving them below the poverty level for a family of four and often unable to afford basic necessities. Employees have become more productive, increasing business efficiency and competitiveness, but wages have not kept pace with these productivity gains. Studies have consistently shown that an increase in the minimum wage does not result in job loss for low-wage workers. The 2017-18 Budget proposes to raise Pennsylvania's minimum wage from \$7.25 to \$12.00 per hour, while tying it to inflation to maintain its purchasing power over time.

Investing in Pennsylvania's Tourism Industry

Every dollar invested in tourism advertising produces five dollars in state revenue. The 2017-18 Budget provides **\$6.1 million to encourage tourism in Pennsylvania**, one of the commonwealth's largest industries with an estimated \$40 billion in total economic activity, \$4 billion in tax revenue, and a 450,000-job impact on the state's economy. Recognizing

that more people continue to access media content on mobile devices, this investment funds a media strategy that prioritizes utilizing social media and digital advertising to promote tourism. To encourage international travelers to visit Pennsylvania, the initiative also increases the state's advertising presence abroad, including in the United Kingdom, Ireland, Germany, China, and Italy.

Smart Cities Initiative

To support efforts to reimagine and reinvigorate Pennsylvania's cities through the use of advanced data and intelligent transportation systems technologies, the 2017-18 Budget provides \$11 million for a grant program to develop a network of smart corridors which will layer environmental, communications, energy, and transportation infrastructure. The network will be supported by an array of fixed and mobile sensors, to improve connections between historically isolated neighborhoods and major centers of employment and health care services. This innovative project will leverage significant private investment to reduce congestion, keep travelers safe, use energy more efficiently, respond to climate change, connect and create opportunities for underserved communities, and support economic vitality.



Government that Works

PROTECTING TAXPAYER DOLLARS

Reforming Pennsylvania's Government

The governor's proposed 2017-18 Budget includes more than \$2 billion in cuts and savings to address chronic budget shortfalls that have plagued the state for many years.

These savings are realized by first prioritizing our state's most important responsibilities – to protect our seniors, ensure children receive the quality education they deserve, provide effective treatment for those battling opioid addiction and put more people back to work to rebuild Pennsylvania's middle class.

Given those expenditure needs, the budget then proposes dramatic changes to state government by eliminating program redundancies, making government operations more efficient, consolidating services where possible and in some cases eliminating funding not related to the core functions of government.

Consolidating Efforts to Serve Pennsylvanians

Last year, the eHealth Partnership and the Children's Health Insurance Program (CHIP) were successfully merged into the Department of Human Services cutting costs, leveraging additional federal reimbursement and improving services. More recently, investment management operations within the Department of Labor and Industry and the Insurance Department have been consolidated within the Treasury Department. Redundant and overlapping functions were further reduced through the elimination of the Public Employee Retirement Commission, shifting those responsibilities to the Auditor General and the Independent Fiscal Office.

Building upon these successes, the proposed budget will continue efforts to merge the Department of Corrections and the Board of Probation and Parole to create a new Department of Criminal Justice. The budget creates a consolidated Department of Health and Human Services to merge all program functions currently provided through the Department of Human Services, the Department of Health, the Department of Aging and the Department of Drug and Alcohol Programs. In both cases, these consolidated agencies will provide more seamless service delivery and save taxpayers more than \$100 million.

Making Difficult Decisions

The administration has already taken steps to reduce the size and cost of government. From this point forward, agencies will operate within current complement levels and optimize spans of control across the commonwealth. The proposed budget assumes an early retirement incentive program and the reform of workers' compensation Acts 534 and 632 to limit increases in the benefit after three years. The delivery of human resource and information technology

services will be consolidated within agency hubs. And, where possible, institutions will be closed within our corrections and human services systems. We cannot afford to do things the way we have for many years. These initiatives will save the commonwealth a combined \$250 million through the end of the next fiscal year.



Continuing GO-TIME Efforts

The Governor's Office of Transformation, Innovation, Management and Efficiency, or GO-TIME, continues its work with state agencies to modernize government operations, maximize efficiency and improve the delivery of programs and services through collaboration, coordination and sharing of resources. In its first year, the GO-TIME initiative launched 154 projects that generated more than \$156 million in savings in 2015-16, exceeding Governor Wolf's goal of \$150 million. In 2016-17, GO-TIME built on this success, growing to more than 200 projects in progress or planned, with a goal of \$500 million in savings by 2020. Specific GO-TIME projects with new direct savings in 2017-18 are detailed throughout agency Program Recommendation sections in this budget document.

GO-TIME highlights for ongoing and new projects include:

- **Sharing Electronic Grants Software** – The Department of Environmental Protection became the first state agency to leverage DCED's online grants system to replace its paper-driven application and review process for Environmental Education Grants. The Pennsylvania Emergency Management Agency and Pennsylvania Council on the Arts also plan to begin using the system in this fiscal year.
- **Leveraging Mobile Technology to Increase Staff Efficiency** – The Board of Probation and Parole will increase the productivity and effectiveness of its agents with a mobile application that enables them to meet with offenders and complete necessary paperwork electronically in the field instead of having to return to an office. Mobile apps have been developed in PennDOT, DEP, and in the Department of Agriculture to improve the speed and accuracy of field inspections.

Government that Works (continued)

- **Modernizing Public Works Project Management** – The Department of General Services continues a modernization process focused on effectively managing capital projects from design to completion for safe, functional and appealing facilities. By leveraging new technology, employees are empowered to maximize efficiency, monitor project performance and ensure projects stay on time and under budget.
- **Leveraging Purchasing Power** – By leveraging purchasing power, state correctional institutions and other 24/7 institutions can procure food orders at a reduced cost while improving operational efficiencies.
- **Decommissioning Redundant Software** – The Office of Administration will continue to streamline redundant software, including GIS mapping applications, resulting in savings that accrue to multiple agencies and more efficient and coordinated use of technology.

Maximizing Existing Sources of Revenue without Increasing Taxes

Before taking any steps to realize new revenue, the 2017-18 Budget relies first on all currently available resources. **The divestiture of unused property** is proposed to generate one-time augmenting revenue from the sale, and also reduce maintenance and operating expenses going forward. However, legislative restrictions governing the sale of commonwealth property must be modernized to allow the commonwealth to generate the highest possible return for these properties. Eliminating the requirement of legislative approval of every sale and something as basic as letting the commonwealth hire a professional realtor could substantially impact the success of property sales.

The 2017-18 Budget proposes the commonwealth enter into a **lease-leaseback arrangement for the Pennsylvania Farm Show Complex & Expo Center** (Farm Show). Under this arrangement, the commonwealth will lease the Farm Show to a private entity for 29 years for the fair market value of the property of \$200 million. At the same time, the private entity will lease back the facility to the commonwealth for the same term with annual rental payments based on a negotiated interest rate. The commonwealth will retain the control and responsibility of the property, while at the same time utilizing the value of the property to address funding shortfalls.

The 2017-18 Budget saves nearly \$110 million in General Fund spending in each of the next three fiscal years by implementing a **bond program through the Commonwealth Financing Authority**. Programs funded through this bond proposal include:

- **CURE Grants (\$45.9 million)** – The Commonwealth Universal Research Enhancement (CURE) program provides health research grants to Pennsylvania-based research institutions.
- **Environmental Stewardship Fund Grants (\$52 million)** – These grants are distributed through the Department of Agriculture, DCNR, DEP, and PENNVEST.
- **Cultural and Historical Support Grants (\$2 million)** – The Cultural and Historical Support program awards grants to eligible museums and official county historical societies in Pennsylvania.
- **Grants to the Arts (\$9.6 million)** – These grants are provided to organizations and artists to increase public exposure to quality artistic and cultural programs, supporting local arts programs to world-renowned orchestras, museums, dance companies, theaters and festivals.

Across the commonwealth, 67 percent of municipalities rely to some degree on the State Police to provide local police support. This coverage comes at no cost to the municipality and is borne by taxpayers statewide, who in many cases support their own local police coverage through local taxes. To begin to address this inequity, the 2017-18 Budget assumes a **\$25 fee is assessed for every person residing in a municipality without local police coverage**.



Act 39 of 2016 enacted sweeping changes to the wine and spirits system in Pennsylvania to improve customer convenience, entrepreneurial opportunity, and the Pennsylvania Liquor Control Board's ability to negotiate with suppliers. The wine and spirits system will continue to play an important budgetary role with these changes in

future years while maximizing convenience for customers through the direct shipment of wine, auctioning of “dead” licenses, the sale of wine in grocery stores, the ability to negotiate prices with suppliers, and expanding the hours and number of stores open on Sundays. Through these changes and further refinements to the LCB’s flexibility in pricing, an **additional \$137 million in LCB revenues** will be generated, with continued growth in future years.

As part of the final 2016-17 Budget agreement, the legislature committed to enacting a gaming expansion proposal that would generate \$100 million in the current fiscal year. This commitment continues to be reflected in the 2017-18 Budget, which further proposes an **additional \$150 million in revenue from gaming expansion** for the budget year. Given developments within the legislature, the governor’s proposed budget does not put forth a specific proposal for expansion, but merely assumes revenues within the current ideas being discussed.

Protecting Middle Class Taxpayer Dollars while Closing Loopholes

The 2017-18 Budget includes **no broad-based tax increases** to address our funding shortfalls and make needed investments. On the contrary, any proposed tax changes will focus on ending special tax treatment for favored interests, strengthening our tax base by eliminating corporate loopholes to avoid future erosion, and providing tax certainty to maximize new business investment.

Specifically, the budget assumes the following limited revenue changes:

- Impose a competitively structured severance tax on natural gas to generate new revenue to support future education investment while sustaining growth and maximizing economic gain from the commonwealth’s natural resource.
- Close loopholes to ensure all insurers, regardless of their method of incorporation, are taxed consistently.
- Establish uniform Net Operating Loss (NOL) provisions to respond to a recent court decision and enact a permanent, competitive resolution.
- Eliminate special interest tax loopholes for specialty software and computer services, prepared food sold to airlines, aircraft maintenance and repair, and business storage that do not contribute a justifiable return in increased business investment.
- Adopt combined reporting in conjunction with Corporate Net Income (CNI) Tax rate reductions beginning in the 2019 tax year to reduce the CNI rate to 6.49 percent by 2022.

The amount available for **tax credits will be reduced by \$100 million** by converting our current array of tax credit incentives into a block grant to focus these initiatives on those credits that have demonstrated the greatest return in new business investment, educational access and community development.

PROTECTING THE MOST VULNERABLE

The Department of Health and Human Services

The 2017-18 Budget proposes the consolidation of the Departments of Human Services (DHS), Health (DOH), Drug and Alcohol Programs (DDAP) and Aging (PDA) into a new, unified Department of Health and Human Services (DHHS) to encourage more effective collaboration and service delivery, enhance program effectiveness, reduce administrative costs, and eliminate duplicate positions.



These agencies often serve similar, if not the same, populations. Access to these services dispersed across various state agencies requires individuals to undergo separate intake and eligibility processes. For example, seniors are currently served by programs in both PDA and DHS. Both DDAP and DHS provide mental health and substance abuse services. The Women, Infants and Children (WIC) program in DOH and the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF) grants, home heating assistance (LIHEAP) and child support programs in DHS are all administered through the counties and serve many of the same recipients. This fragmented approach often leads to confusion for program applicants and their families and,

Government that Works (continued)

in many cases, discourages individuals from accessing services for which they are eligible. Consolidation of these services into bureaus within a new department will drive better outcomes, improve customer service and save more than \$90 million.

Additionally, several programs throughout the commonwealth purchase, dispense, and monitor prescription drugs, including PACE in PDA, the Prescription Drug Monitoring Program (PDMP) in DOH, and the pharmacy functions of Medical Assistance and CHIP in DHS. The consolidation of these functions into one bureau will drive down costs by more than \$45 million through uniformity of program services and fees and other efficiencies. This consolidation will also lay the groundwork for the further merging of other pharmacy functions throughout the commonwealth, significantly reducing costs in other areas such as veterans homes and state correctional institutions.



DOH currently operates 55 **State Health Centers** (SHC) across the commonwealth providing clinical services for uninsured and underinsured Pennsylvanians. These services include vaccinations, counseling, testing and treatment for STD/HIV/TB, and referrals to appropriate agencies for assistance with housing, utilities, insurance, medical needs, investigation of reportable diseases and outbreaks and education on public health issues. Although the health needs of the commonwealth's population have changed and services offered by health providers have expanded, the SHC system has remained unchanged since 1992.

Through the expansion of Medicaid in Pennsylvania, the uninsured rate has dropped from 14 percent to 6.4 percent. Many of the services provided by the SHCs are now provided by primary health care providers. Therefore, a new approach is needed to continue to serve the citizens of the commonwealth which reduces costs while improving delivery. The proposed consolidation reduces the number of brick-and-mortar health centers and relocates community-health nurses into other community-based settings, such as County Assistance Offices or local health departments, to increase regular participation and provide enhanced service and education for the consumers, while saving \$15 million.

The back-office functions of our **County Assistance Offices** (CAO) will also be consolidated by shifting these functions to processing centers to reduce the physical footprint of CAOs, starting with those with the highest turnover. This reorganization and streamlining will result in improved staff retention and productivity, while saving \$7 million. Customers of the CAOs will not be impacted as “storefronts” would remain. Not only will this initiative improve customer service, it will also bring new employment to areas that do not currently have many state government employment opportunities.

Finally, consolidation of these agencies into a **single state authority for Medicaid** purposes will enable the commonwealth to maximize the amount of federal dollars available to offset state costs for staff and services delivered.

Ensuring the best care for those with Intellectual Disabilities

The intellectual and developmental disability service system is evolving from a focus on providing service in large institutions, often far from a person's home and community, to a flexible and dynamic system of supports and services close to home and in the community. The new system is tailored to the needs of persons living in their home community and includes community residential and day support services.

The 2017-18 Budget provides **\$26.2 million to move individuals with intellectual disabilities and autism from the waiting list and into services**. This funding will allow DHHS to transition 40 individuals from State Centers to the community; reduce the waiting list by 1,000 individuals; expand the Person/Family Directed Support waiver to provide employment and community services to 820 Special Education graduates with ID and autism; add more than 2,000 individuals with autism and ID to the Targeted Services Management State Plan; and expand the Adult Autism Waiver by 50 additional individuals.

Continued Efforts to Address the Heroin and Opioid Epidemic

While Governor Wolf, in partnership with the General Assembly, has taken significant steps over the last two years to address our heroin and opioid epidemic, more work needs to be done. More than 3,500 individuals lost their lives to substance use disorder in 2015. Since taking office, the governor has expanded access to naloxone, increased access to treatment, implemented the state's Prescription Drug Monitoring Program, and worked with the General Assembly to pass five pieces of legislation to address the epidemic.

The 2017-18 Budget places significant emphasis on expanding access to treatment, diverting addicted individuals away from the criminal justice system and into supportive programs, and regulating facilities that provide recovery services. These strategies are evidence-based approaches targeting communities and individuals most in need.

Specific 2017-18 budget plans will **maximize federal Cures Act funding, which includes \$26.5 million in each of the next two years for Pennsylvania**, to address the heroin and opioid epidemic. Funds will be used to expand access to treatment services, particularly for individuals who are uninsured or underinsured. A statewide needs assessment will be used to develop a strategic plan to provide access to treatment across a continuum of care.

Proposed funds for the Pennsylvania Commission on Crime and Delinquency include **\$10 million to expand access to naloxone for first responders**. Competitive grant funds will be awarded through PCCD to local communities that demonstrate the greatest need.

Another PCCD initiative will provide **\$3.4 million to expand specialty drug courts**. Funds will be targeted to communities that are seeking state accreditation to root their practices in evidence-based strategies or communities looking to expand treatment strategies to divert offenders into more meaningful treatment and recovery. Funding will also be available for counties that are looking to implement drug courts for the first time. In addition, a portion of these funds will be allocated to the Administrative Office of Pennsylvania's Courts to provide assistance to communities with existing drug courts.

All Payer Claims Database

Health care costs in Pennsylvania continue to escalate. Among the governor's many efforts to bend this cost curve is the ongoing implementation of the Health Innovation Plan (HIP). Developed with input from various external stakeholders, HIP established a primary goal of price and quality transparency. The 2017-18 Budget provides **\$2 million to establish an All Payer Claims Database** to collect medical, pharmacy, and dental claims, and eligibility

and provider files from private and public payers, including Medicaid, Medicare and commercial insurers. Establishing this database is vital to transforming our health care system and controlling health care spending, as it offers the only way to comprehensively measure and bring transparency to health care spending and utilization in Pennsylvania.



Ensuring Solvency of the Lottery Fund

The Pennsylvania Lottery funds a wide range of important programs supporting older Pennsylvanians, including the property tax and rent rebate program, the Department of Aging's PACE program, the free and reduced-fare transit program, and the long-term living services program. The 2017-18 Budget assumes the **implementation of iLottery**, ensuring the system continues to be competitive in an increasingly online marketplace while generating additional revenue to support these programs.

PROTECTING OUR SAFETY

Justice Reinvestment II, or JRI II

In 2016, the commonwealth engaged in a second round of justice reinvestment initiatives to build upon past efforts. This review of the state's criminal justice system focused on reducing ineffective corrections spending and investing some of these savings in proven public safety strategies.

Government that Works (continued)

With the assistance of the Council of State Governments and the leadership of the governor, General Assembly, and criminal justice stakeholders, the JRI II Workgroup identified key legislative and policy reforms.

The following reforms, detailed below, will result in estimated savings of \$108 million over the next five years:

- **Presumptive Parole Policy** – The state correctional institution population with sentences of 24 months or less for nonviolent offenses will be given a presumptive release to parole upon reaching their minimum sentence.
- **Statewide Adult Probation Committee** – Create a statewide adult probation board within the Pennsylvania Commission on Crime and Delinquency to oversee funding, standards, and training.
- **Quick Dip Parole** – Use brief sanctions of up to five days for certain technical parole violations instead of sending a parolee back to state correctional institutions for multiple weeks.
- **Community Corrections Centers** – Develop limited admission criteria for community corrections centers to cut down on recidivism.
- **Sentencing Reform** – Guide effective sentencing decisions to reduce recidivism through recommendations by the Commission on Sentencing, streamlining State Intermediate Punishment, county probation reform, and the merging of probation and County Intermediate Punishment into one sentencing option.
- **Pretrial Reform** – Through an established working group, pursue informed pretrial decisions to increase public safety and decrease county prison costs.
- **Victim Advocate Support** – Revise the Crime Victims Act to serve individuals more effectively.

It's On Us PA

In an effort to increase awareness, education, and resources to combat sexual violence in schools, colleges, and universities, Governor Wolf launched the "It's On Us PA" campaign in January 2016, inviting education leaders and all Pennsylvanians to be part of the solution to protect students from sexual violence. The campaign's goals include reducing barriers that prevent survivors of sexual violence from reporting or accessing vital resources and demonstrating change in campus culture by challenging Pennsylvania's education leaders including college and university presidents, superintendents, students, teachers, faculty, staff, families and communities to pledge to improve their institutions' climate.

The 2017-18 Budget will again provide **\$1 million to support prevention, reporting, and response efforts at postsecondary institutions.**

State Police Cadet Classes

Following the completion of three State Police Cadet classes beginning in 2016-17, this budget provides for **three additional classes beginning in 2017-18.** These classes will restore and maintain historic State Police Trooper filled complement levels with traditional retirement and turnover.

PROTECTING THE ENVIRONMENT

Watershed Protection

The commonwealth is blessed with more miles of rivers and streams than any state other than Alaska. These bodies of water and the watersheds that feed them are sources of our drinking water, provide recreation and support Pennsylvania's diverse population of wildlife. Pennsylvania has over 19,000 miles of impaired local waterways, and half of the land area of Pennsylvania drains to the Chesapeake Bay. While the state has made significant progress in reducing pollution entering local waterways, these reductions have fallen short of the reduction targets established by U.S. Environmental Protection Agency.

In February 2016, the Department of Agriculture, DEP and DCNR jointly launched a Chesapeake Bay Restoration Strategy to reduce nitrogen and phosphorous discharges into the watershed.

The 2017-18 Budget would use \$15 million in bond proceeds to fund watershed protection activities. The Department of Agriculture will receive **\$4.7 million to develop erosion and sediment management plans** on Pennsylvania farms. The Department of Environmental Protection will receive **\$8.3 million to address local water quality efforts.** A portion of these resources will support a rebate program to farmers to cover costs for nutrient management, agricultural erosion and sediment control. Funds will also be used for the implementation of storm water control and agricultural best management practices. The Department of Conservation and Natural Resources will utilize **\$2 million to expand its Chesapeake Bay Riparian Forest Buffer Program,** which will leverage an additional federal match.



General Fund Financial Statement

	Dollars in Millions		
	2015-16 Actual	2016-17 Available	2017-18 Budget
Beginning Balance.....	\$ 274	\$ 2	\$ -605
Adjustment to Beginning Balance.....	-18	.....	.....
Revenues:			
Receipts.....	\$ 30,902	\$ 32,302	\$ 32,867
Proposed Revenue Changes.....	.....	.....	1,006
Gaming Expansion.....	.....	100	150
Less Refunds.....	-1,250	-1,300	-1,320
Prior Year Lapses.....	221	57	245
Funds Available	\$ 30,129	\$ 31,161	\$ 32,343
Expenditures:			
Total Appropriations.....	\$ 30,127	\$ 31,532	\$ 32,103
Supplemental Appropriations.....	.....	234	.....
New Initiatives .....	.....	.....	235
Current Year Lapses.....	.....	.....	.....
Total State Expenditures.....	\$ 30,127	\$ 31,766	\$ 32,338
Preliminary Balance.....	2	-605	5
Transfer to Rainy Day Fund .....	.....^a	.....	-1 ^b
Ending Balance.....	\$ 2	\$ -605	\$ 4

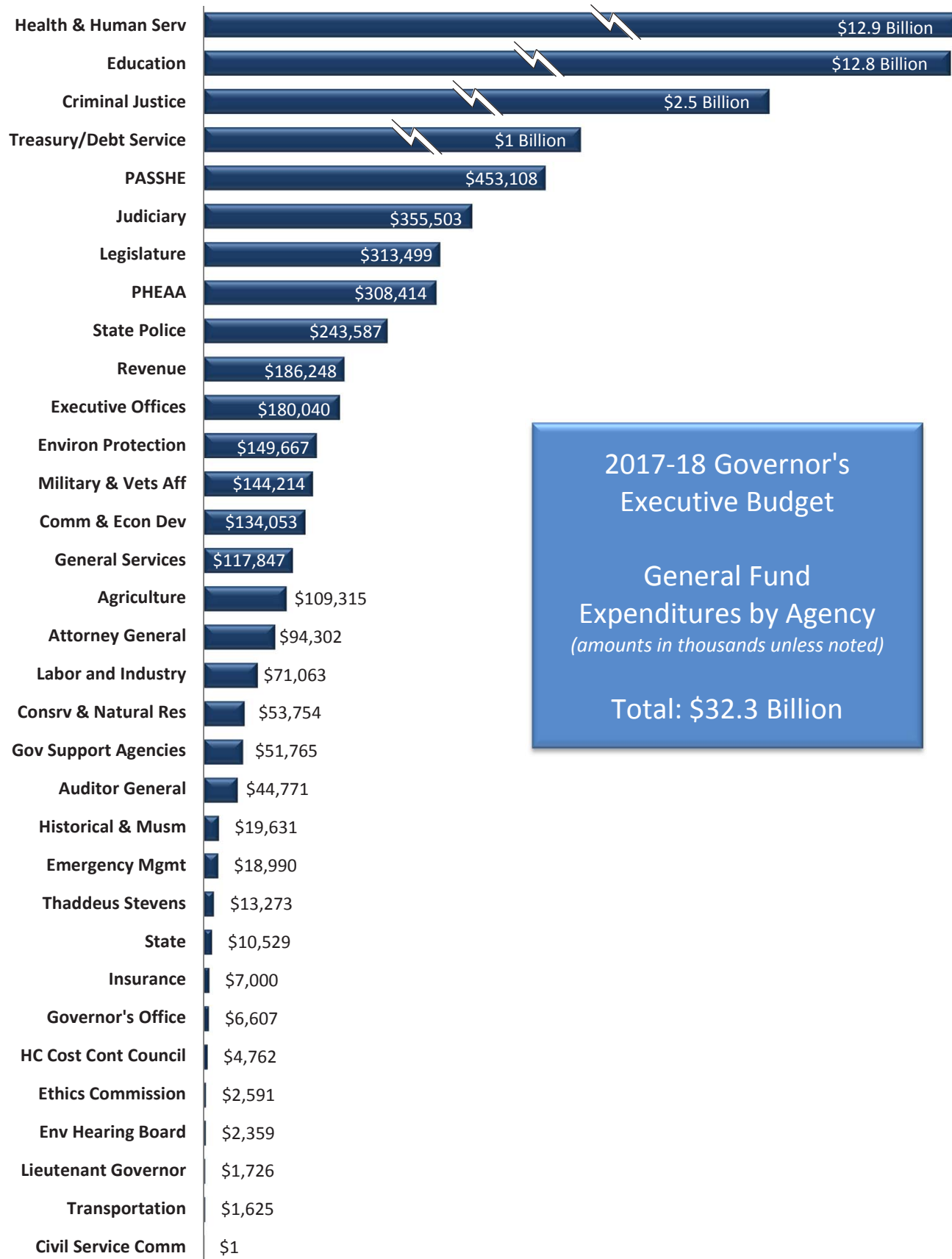
^a Act 85 of 2016 suspended the 25% transfer to the Budget Stabilization Reserve Fund for 2015-16.

^b This budget proposes the reinstatement of the 25% transfer to the Budget Stabilization Reserve Fund for 2017-18.

General Fund Revenue Sources

Source	Dollars in Millions		
	2015-16 Actual	2016-17 Estimated	2017-18 Estimated
Personal Income Tax	\$ 12,506.0	\$ 12,897.4	\$ 13,664.9
Sales and Use Tax	9,795.2	9,985.5	10,825.2
Corporate Net Income Tax	2,842.4	2,766.0	2,868.0
Capital Stock and Franchise Taxes	150.6	30.9	-
Gross Receipts Tax	1,304.9	1,294.1	1,279.7
Cigarette Tax	911.5	1,244.4	1,258.4
Other Taxes	2,747.2	2,902.1	3,394.4
Non-Tax Revenues	643.8	1,281.3	733.2
Total Receipts	\$ 30,901.6	\$ 32,401.7	\$ 34,023.8
Difference from prior year	1,409.3	1,500.1	1,622.1
Percentage difference	4.8%	4.9%	5.0%

General Fund Expenditures by Agency



2017-18 Governor's Executive Budget

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

Total: \$32.3 Billion

Motor License Fund

INCOME

(Dollars in Millions)



Liquid Fuels Tax – \$1,837

Licenses and Fees – \$999

Other – \$23

OUTGO

(Dollars in Millions)



Highways & Bridges – \$1,339

State Police – \$739

Local Subsidy – \$333

Other – \$224

Licensing & Safety – \$167

Debt Service – \$53

Total Income	\$2,859
Beginning Balance....	32
TOTAL	\$2,891

Total Outgo	\$2,855
Ending Balance	36
TOTAL	\$2,891



Economic Outlook

The Forecast

The U.S. economy is expected to grow modestly in the coming year as consumer spending, housing, and government spending continue to expand. Growth in spending was approximately 3% over the past year and is predicted to increase at a similar level in 2017. Housing activity is predicted to continue to grow and remain strong for the next several years. Government spending was revised down slightly in the third quarter of 2016. The growth rate for the U.S. economy for 2017 is expected to be in the 2.0-2.5% range.

Table 1 and Table 2 are U.S. macro forecast projections from IHS Global Insight. Table 1 outlines the expected outlook for lower unemployment and an increase in GDP. Table 2 notes that over the next two years there is a 65% probability of decent 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 single employment sector dominates Pennsylvania. Since the turbulent diversification of the Pennsylvania economy during the 1970s and 1980s, Pennsylvania has a much more stable economy which tends to track the national economy but with less volatility. During periods of national economic contraction, Pennsylvania often will outperform the U.S. in areas such as growth in real gross state product, growth in real personal income, and employment growth. Pennsylvania's unemployment rate generally trends below the U.S. rate, and per capita income levels in the commonwealth exceed national levels. However, during periods of economic expansion, Pennsylvania will often lag behind the rate of growth in the national economy.

Pennsylvania will continue to benefit from the Marcellus shale natural gas deposit. The buildout of infrastructure to move gas to the market will continue with the construction of pipelines, compressing stations, and processing facilities. Eventually the Utica shale will provide jobs in the mining industry. The state may also attract jobs in industries that can benefit from the increase in natural gas supplies, either for low-cost energy or for inputs into chemical products. The current growth phase in the Marcellus shale production continues to mostly involve building infrastructure to service existing wells. Royal Dutch Shell is moving forward with its proposed processing plant in Beaver County. The plant will process ethane from nearby natural gas wells in Pennsylvania, Ohio, and West Virginia into ethylene, which is the building block of plastics. The plant will provide hundreds of jobs and ensure market access for locally produced natural gas liquids.

The Pittsburgh area continues to attract high-tech jobs such as software development. This, along with the state's numerous high-quality research universities, is helping to mitigate job migration. Pennsylvania is expected to add jobs at an annual average rate of 0.7% between 2016 and 2020.

Table 1

Forecast Change in Key US Economic Indicators Annual Percentage Growth*				
Indicator	2015	2016p	2017p	2018p
Nominal GDP	3.7	2.9	4.7	5
Real GDP	2.5	1.5	2.3	2.6
Real Personal Consumption	3.2	2.7	2.8	3.1
Corporate Profits (After Tax)	-8.5	3.9	7.7	7.1
Unemployment Rate (Rate)	5.3	4.9	4.6	4.3
CPI	0.1	1.3	2.5	2.4
Federal Funds (Rate)	0.1	0.4	0.9	1.7

* Assumptions in this chart, as well as other assumptions, are incorporated in the 2017-18 fiscal year revenue estimates.
p = projected



Economic Outlook (continued)

Table 2

U.S. Macro Forecast Projection from IHS Global Insight December 2016

Baseline Forecast (65% Probability)	
GDP Growth	Decent growth, 2.3% in 2017 and 2.6% in 2018
Consumer Spending	A key driver of growth, up 2.8% in 2017 and 3.1% in 2018
Business Fixed Investment	Rebounds 4.3% in 2017 as equipment spending picks up, and grows 4.4% in 2018
Housing	Gradual improvement, with more than 1.3 million starts by second quarter 2018
Exports	Move up 2.3% in 2017, before climbing 2.7% in 2018
Monetary Policy	Federal Reserve hikes the federal funds rate three times in 2017, ending the year at 1.50%
Credit Conditions	Gradually easing
Consumer Confidence	On a generally upward trajectory until fourth-quarter 2018
Oil Prices (Dollars/barrel)	Brent crude oil averages \$54 in 2017 and \$57 in 2018
Stock Markets	The S&P 500 rises 7.7% in 2017 and 4.2% in 2018
Inflation (CPI)	Core CPI inflation averages 2.3% in each year from 2017–19; headline inflation hovers slightly higher during that period
Foreign Growth	In 2017, Eurozone growth registers 1.3% while China's growth slows to 6.4%
U.S. Dollar	The inflation-adjusted dollar peaks in the fourth quarter of 2017, then depreciates for the remainder of the forecast interval

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	2015	2016	2017	2018	2019	2020
Real Gross State Product (in millions, 2009 dollars)	647,041	647,806	658,850	672,027	683,022	695,471
Real Gross State Product (percentage change)	2.8%	0.1%	1.7%	2.0%	1.6%	1.8%
Total Employment (in thousands)	5,836.9	5,888.4	5,925.2	5,964.4	6,004.2	6,037.3
Total Employment (percentage change)	0.8%	0.9%	0.6%	0.7%	0.7%	0.6%
Manufacturing Employment (in thousands)	568.2	565.6	565.2	571.0	579.1	584.3
Nonmanufacturing Employment (in thousands.)	5,268.7	5,322.8	5,360.0	5,393.3	5,425.1	5,452.9
Population (in thousands)	12,790.4	12,783.6	12,780.2	12,783.0	12,791.9	12,805.0
Population (percentage change)	0.0%	-0.1%	0.0%	0.0%	0.1%	0.1%
Unemployment Rate (percentage)	5.0%	5.4%	5.3%	4.7%	4.4%	4.4%
Personal Income (percentage change)	3.8%	2.7%	4.3%	4.6%	4.7%	4.3%
U.S. ECONOMY						
Real Gross Domestic Product (percentage change)	2.5%	1.5%	2.3%	2.6%	2.2%	2.1%
Employment (percentage change)	2.0%	1.7%	1.3%	1.2%	1.2%	0.9%

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