

The background of the page is a dark blue color with a large, faint, circular seal of the Commonwealth of Pennsylvania. The seal features two horses flanking a central shield, with an eagle above it. The text "COMMONWEALTH OF PENNSYLVANIA" is written around the top inner edge of the seal, and "THE GOVERNOR" is written around the bottom inner edge. A five-pointed star is located at the bottom left of the seal.

2018 – 2019 Governor's Executive Budget-in-Brief

Governor Tom Wolf

SCHOOLS THAT TEACH.

JOB'S THAT PAY.

GOVERNMENT THAT WORKS.

VIRTUE

LIBERTY AND

INDEPENDENCE

THE

GOVERNOR



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

February 6, 2018

To the People of Pennsylvania:

Since taking office, I have worked with the General Assembly to budget responsibly to protect and sustain investments in education, job creation, and services for older Pennsylvanians and the most vulnerable. I have worked to take a new approach to budgeting and the way Harrisburg does business.

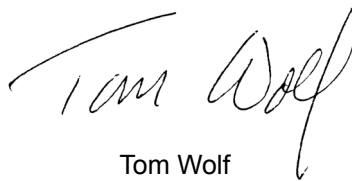
This year's budget builds upon the progress we have made to restore the state's fiscal health. Savings and efficiencies have reduced annual expenditure growth far below historic trends. The budget plan continues to maximize cost-saving initiatives, including agency consolidations and complement management.

Recognizing that work is a dynamic concept requiring a workforce adaptable to changing market forces and technology, we will launch a new workforce initiative – PAsmart – to fund new efforts to enhance career and technology programs to reach across agencies to help all Pennsylvanians prepare for successful careers. This year's budget makes further investments in programs that support women and families, and continues the fight against opioid abuse.

My budget continues efforts to make government more efficient and to prioritize these important responsibilities. In the longer term, these responsible steps provide the capacity to begin generating substantial budget surpluses to rebuild General Fund reserves.

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

2018-19 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

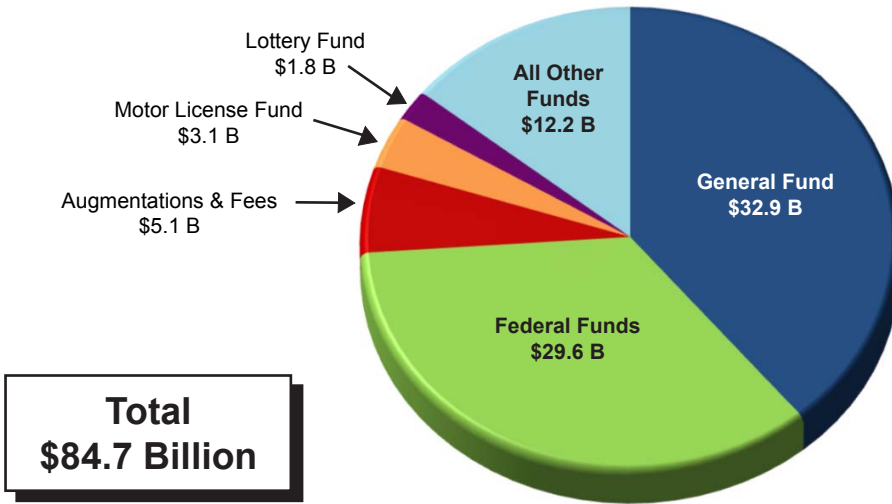
See COMMONWEALTH BUDGET section.

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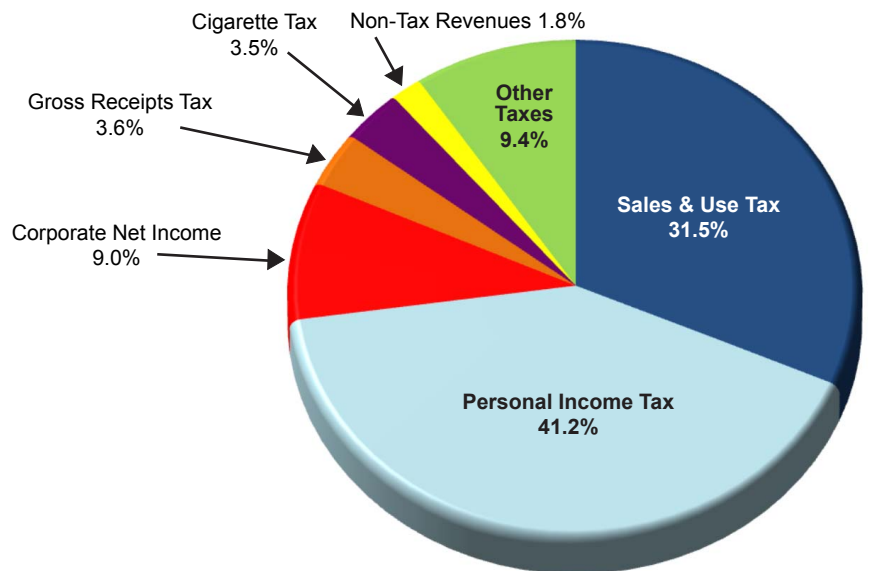
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Budget Overview

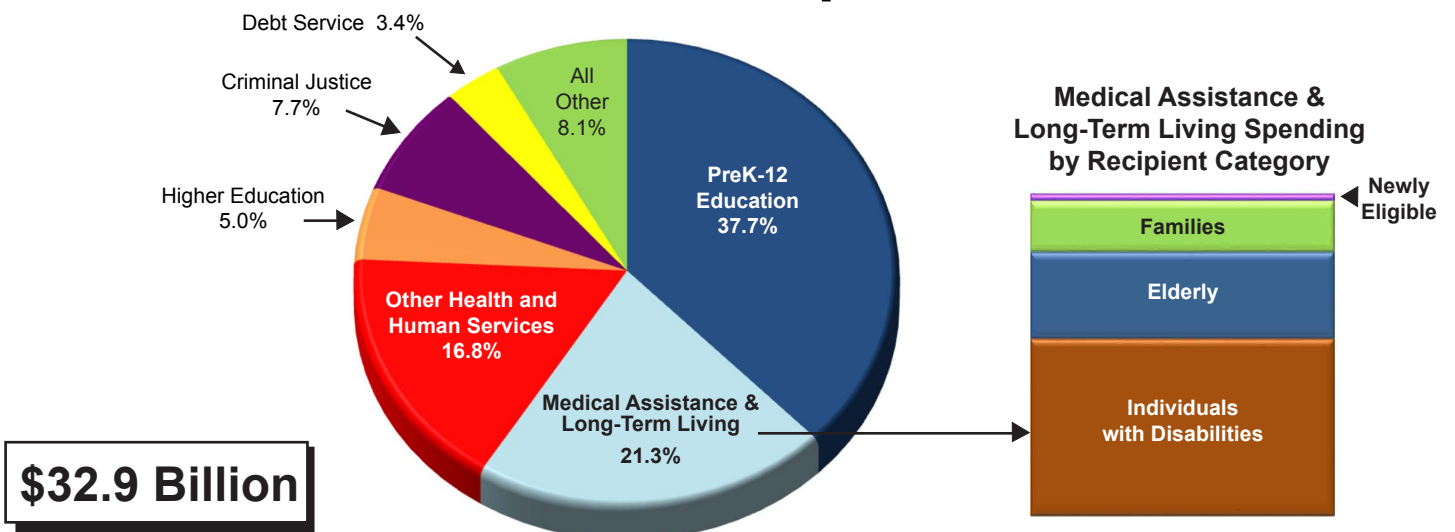
Total Operating Budget



General Fund Revenues



General Fund Expenditures



Budget Highlights

Since taking office, Governor Wolf has proposed balanced budgets that fund education and human services, investing in middle class job creation, programs for seniors, and treatment to fight the opioid crisis. This year's budget continues cost savings and spending reductions by further improving 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 individuals with disabilities, while maintaining funds for public safety, transportation, and other essential services upon which middle class families depend.

- The General Fund budget spends \$32.9 billion, an increase of \$989.8 million, or 3.1 percent over the prior year.
- The budget includes no broad-based tax increases.

Protecting Taxpayers

- Proposes a modest, price-sensitive severance tax while maintaining the existing impact fee in its current form.
- Proposes business tax reforms to create a more competitive business tax climate, provide tax certainty, and maximize new business investment.
- Continues efforts to consolidate administrative functions to improve agency coordination and collaboration, eliminate duplicative functions and increase operational efficiencies.
- Continues GO-TIME efforts – nearly 300 projects generated an estimated \$373 million in cumulative savings over the first two years of the initiative. Ongoing and new projects include: modernizing hiring practices; reducing inmate medical costs; and increasing oil and gas drilling inspections.
- Continues to reform our pension systems by fully funding actuarially required SERS and PSERS contributions and implementing Act 5 of 2017 pension reforms by introducing new hybrid benefit plans for new hires and taking further steps to reduce investment management fees.
- Protects services for older Pennsylvanians by launching new product lines including iLottery games, monitor-based games, and keno to appeal to new and younger players, providing long-term stability for Lottery funded programs, while reducing administrative costs for services that support seniors.

Building a Workforce, Growing the Economy

CONTINUING INVESTMENTS IN EDUCATION AND WORKFORCE DEVELOPMENT

- Provides an additional \$225 million to improve education for every student across the state, regardless of zip code and further ensure a workforce ready for the 21st century, including: \$100 million for Basic Education Funding, \$20 million for Special Education, \$30 million for Pre-K Counts, \$10 million for Head Start, \$40 million for PAsmart to develop 21st century skills (Career and Technical Education), \$10 million for additional Career and Technical Education, and \$15 million for PASSHE.

Budget Highlights (continued)

PROMOTING 21ST CENTURY JOBS AND SKILLS

- Launches PAsmart, a \$50 million initiative to align workforce development efforts across commonwealth agencies to more efficiently deliver services for all Pennsylvanians, including:
 - ✓ \$40 million in STEM and computer science related education.
 - ✓ \$10 million through L&I to expand apprenticeships and industry partnership investments.

ENSURING ACCOUNTABILITY

- Focuses new efforts to develop a more transparent performance evaluation system across the entire education and workforce development system.
- Promotes career awareness and hiring opportunities for students and workers, including career experience and professional development opportunities for teachers, staff and administrators across all Pennsylvania industry sectors.

RAISING PENNSYLVANIA'S COMPETITIVENESS BY INCREASING THE MINIMUM WAGE

- Proposes increasing the minimum wage to \$12 per hour, reducing net entitlement costs for DHS programs by an estimated \$101 million annually with net federal savings exceeding \$600 million annually.

INVESTING IN PROVEN JOB CREATION PROGRAMS

- Provides a \$5 million increase for PA First, providing a total of \$20 million for these initiatives. WEDnet, a workforce development tool providing training to Pennsylvania workers, will receive \$8 million of the total investment.
- Continues \$12 million to fund Manufacturing PA to support the Pennsylvania Manufacturing Training-to-Career Grant Program, the Pennsylvania Manufacturing Innovation Program, and Pennsylvania's Industrial Resource Centers.

Supporting Opportunities for Women and Families

- Invests \$25 million in state funds, matched with \$5 million in federal funds, to expand access to high-quality child care.
- Work with the General Assembly to align Pennsylvania workplace standards with today's modern workforce and social realities, including working to close the gender wage gap, guarantee earned sick leave, and protect victims from sexual misconduct.

Budget Highlights (continued)

Protecting the Most Vulnerable

- Proposes the consolidation of the Department of Human Services and the Department of Health into a new Department of Health and Human Services.
- Continues the coordinated and innovative approach to address the opioid abuse epidemic, including \$26.5 million in federal Cures Act funding focused primarily on expanding access to treatment services, \$2 million to expand access to accredited specialty drugs courts, and \$4.5 million for home visiting services for families affected by opioid use disorder.
- Provides an additional \$74 million for services for individuals with intellectual disabilities and autism, including \$16 million to enroll an additional 965 individuals to receive services, and new steps to enroll special education students transitioning to adult services in June 2019.
- Continues implementing Community HealthChoices to right size our long-term care system and serve more people in the community.
- Provides \$2.5 million for education, prevention activities and surveillance of Lyme disease activity.
- Provides \$2.35 million to process additional birth certificates and reduce processing times.

Keeping Pennsylvania Safe

- Provides \$6 million for a Pennsylvania State Police pilot program to purchase body worn cameras.
- Assesses a \$25 per capita fee on municipalities without local police coverage to provide sufficient revenue to fund four State Police Cadet classes and increase Trooper complement by 100 positions.
- Provides \$53 million for communication and infrastructure purchases to modernize our Statewide Radio System and comply with federal requirements.
- Invests \$300 million over the next five years in Motor License Fund revenue targeted for road and bridge construction and maintenance, including \$100 million in 2018-19.

Protecting the Environment

- Provides an additional \$2.5 million for high-quality, responsive oversight and improved customer service.
- Includes \$1.597 million in new funding to increase Spotted Lanternfly detection, control and eradication efforts to protect Pennsylvania business and agriculture.

Introduction

Since taking office, Governor Wolf has worked with the General Assembly to budget responsibly. The proposed 2018-19 Budget builds upon these efforts to restore the state's fiscal health. Savings and efficiencies totaling more than \$2 billion have reduced annual expenditure growth far below historic trends. Revenue enhancements enacted in the past two years will annually provide more than \$1 billion in new recurring revenue. Together, these steps have substantially brightened the state's fiscal future.

In past years, decision makers failed to make these tough choices. During the Great Recession, revenue collections declined by nearly \$2.4 billion. Coping with this loss forced the state to deplete all Rainy Day Fund reserves and take drastic steps to balance the budget.

Steep cuts were forced upon counties and local governments. Education funding was drastically reduced, including a cut of more than \$1 billion in aid to local school districts. Pension liabilities were woefully underfunded, while budgets were repeatedly balanced with short-term measures, prompting credit rating agencies to downgrade the state's bond rating five times. When Governor Wolf began his administration in 2015, the state faced a structural deficit of more than \$2 billion.

Since 2015, Governor Wolf has fundamentally changed this approach to budgeting. Total spending increases during the past three years have been held below \$2.85 billion. More importantly, these increases have been targeted to restore funding for education, fully fund future pension obligations, and maintain essential state support for counties, local governments, and middle-class families.

Education investments have increased by more than \$840 million during the past three years, and will grow by more than a billion dollars, after including proposed spending increases for the next fiscal year. These increases fully restore the deep cuts to local school districts made in the prior administration.

Since 2000, chronic neglect has amassed an unfunded pension liability exceeding \$65 billion. Now, the necessary steps are being taken to reduce this debt. Increased retirement contributions to the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) during the past three years totaled \$1.4 billion. The proposed budget fully funds our actuarially required contributions for both systems for the first time in nearly two decades.

After accounting for these increases in education funding and mandated pension contributions, net increases in all other General Fund spending has been limited to less than \$600 million. This minimal increase of less than 1 percent annually has been accomplished through extraordinary steps to manage state expenditures. These initiatives included:

- Complement reductions of nearly 1,500 filled positions within executive agencies, reducing total filled complement to its lowest level in more than 40 years.
- Facility closures, including the Pittsburgh State Correctional Institution, reducing total Corrections spending below prior-year levels for the first time in more than three decades.
- Agency consolidations and restructuring, including reorganizing criminal justice functions through the implementation of a Memorandum of Understanding combining the Department of Corrections and the Pennsylvania Board of Probation and Parole within a single operating entity, restructuring HR and IT services for all executive agencies within six service delivery centers, and consolidating back-office operations among human service agencies.
- Limiting new capital borrowing and managing debt to lower debt service costs below 2015-16 expenditures.
- Maximizing the use of private managed care providers to limit the growth of Medical Assistance expenditures, including the implementation of Community HealthChoices to "right size" our long-term care system and allow seniors and individuals with disabilities to remain in their homes and communities.

The 2018-19 budget plan limits base expenditure growth to less than \$685 million, while fully funding new mandated pension contributions of \$275 million. Planned initiatives, totaling \$303 million, will prioritize investments in education, job training, the fight against opioid addiction, access to quality child care, and services for individuals with intellectual disabilities and autism.

Cost-saving initiatives, including GO-TIME, agency consolidations, and complement management will continue to be maximized to limit expenditure increases. These actions will be monitored to ensure critical program needs are met and most often improved.

Building upon the completed phase-out of the Capital Stock and Franchise Tax, further steps to reform our business tax structure would implement full combined reporting. These reforms eliminate the Delaware Loophole for multi-state corporations and lower the Corporate Net Income Tax rate to 7.99 percent by 2023 for all corporations doing business in Pennsylvania.

In the longer term, the proposed budget would provide sufficient revenue to continue increased education investments, maintain state support for essential commonwealth programs and begin generating substantial budget surpluses to rebuild General Fund reserves. By 2023, the budget plan projects a Rainy Day Fund balance of nearly \$300 million.

Protecting Taxpayers

Given the commonwealth's improved fiscal condition, the proposed 2018-19 Budget requires no broad-based tax increase. The budget maximizes currently available resources and reduces costs wherever possible. As a result, this budget relies only on a severance tax to fully fund new investments.

Enacting a fair, commonsense Severance Tax

The proposed budget plan includes a modest severance tax and would maintain the existing impact fee in its current form. The proposed severance tax would be price sensitive to the natural gas sector. As producer profitability increases due to rising natural gas prices, the severance tax rate will increase as well. The following chart outlines the tax structure:

Pennsylvania remains the only gas-producing state in the country without a severance tax. This is more significant

Natural Gas Price Range	Tax Per Thousand Cubic Feet
\$0.00 - \$3.00	\$0.04
\$3.01 - \$4.99	\$0.05
\$5.00 - \$5.99	\$0.06
\$6.00 or more	\$0.07

now that the commonwealth is the second-largest producer of natural gas in the country. Moreover, Pennsylvania gas production continues to increase, while our proven shale natural gas reserves exceed those of Texas.

It is time for the shale industry to be a true partner for the future success of our commonwealth. The governor has demonstrated his commitment to nurture responsible shale development and job creation and remains committed to supporting a strong shale industry.

The severance tax plan will retain the natural gas impact fee as currently structured. The impact fee has assisted local communities where natural gas is extracted to invest in infrastructure, their economies, and the health and safety of residents.

Now, all Pennsylvanians deserve to share in the prosperity of this rich natural resource, as residents in other gas-producing states already do. This commonsense proposal generates much-needed revenue to address critical budget needs, but does not place a majority of this tax burden on Pennsylvania residents. The Independent Fiscal Office estimates over 80 percent of Pennsylvania's natural gas is purchased by residents in other states or in international markets. Commonwealth taxpayers as a result will bear less than 20 percent of the tax burden.

Creating a more competitive business tax climate

The 2018-19 Budget proposes business tax reforms to create a more competitive business tax climate, provide tax certainty, and maximize new business investment.

Specifically, the budget assumes the adoption of full combined reporting effective January 1, 2019, in conjunction with Corporate Net Income Tax (CNIT) rate reductions. Annual rate reductions would lower the CNIT rate by 20 percent to 7.99 percent by 2023.

Consolidating administrative functions to efficiently serve Pennsylvanians

In January 2017, the governor announced the HR/IT Shared Service Transformation—the consolidation of all executive agency human resource and information technology services within six delivery centers. The implementation of shared HR/IT services enables the adoption of standardized approaches across support areas, eliminating duplicative cost structures, reducing risk, implementing new capabilities, innovating in a rapid and cost-efficient manner, and focusing resources on agency programming.

More recently, the administration has consolidated the administrative functions among health and human service-related agencies – the Department of Human Services, the Department of Health, the Department of Aging, and the Department of Drug and Alcohol Programs. Consolidating budget and administrative operations will improve coordination and collaboration across these agencies, eliminate duplicative functions, and allow for organizational efficiencies.

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 operations through process improvement, technology use, and identification of opportunities to collaborate and share resources. In its first two years, GO-TIME identified nearly 300 projects across state agencies generating more than \$373 million in cumulative savings. Further specifics on GO-TIME projects are detailed throughout this budget document.

GO-TIME highlights for ongoing and new projects include:

- **Modernizing the Hiring Process.** The Office of Administration (OA) implemented vacancy-based postings for non-civil service positions and a modern, user-friendly website, increasing the number and quality of candidates applying for jobs. Similar steps for civil service positions will enable commonwealth hiring to become more competitive.
- **Reducing Inmate Medical Costs.** The Department of Criminal Justice (DCJ) has reduced individual medical costs for inmates – while maintaining or improving care – by leveraging federal and state programs and innovative partnerships with the Department of Aging and private providers.

Protecting Taxpayers (continued)

- Increasing Oil and Gas Drilling Inspections.** The Department of Environmental Protection (DEP) is leveraging the award-winning mobile technology cultivated at PennDOT to replace paper forms with a mobile app and modernize field inspections. Duplicate entry has been virtually eliminated, and trips between field sites and offices are significantly reduced.

GO-TIME works with state agencies to pursue continuous process improvement using “Lean” practices. Both private and public-sector organizations have employed Lean practices to address backlogs, improve workflow, increase quality, empower employees and better meet the needs of customers. Through LeanPA, GO-TIME will achieve similar results for the commonwealth and its taxpayers.

Eighteen agencies currently participate in LeanPA, teaching employees at every level to become problem-solvers. Employees have completed more than 140 Lean projects during the first year of implementation.

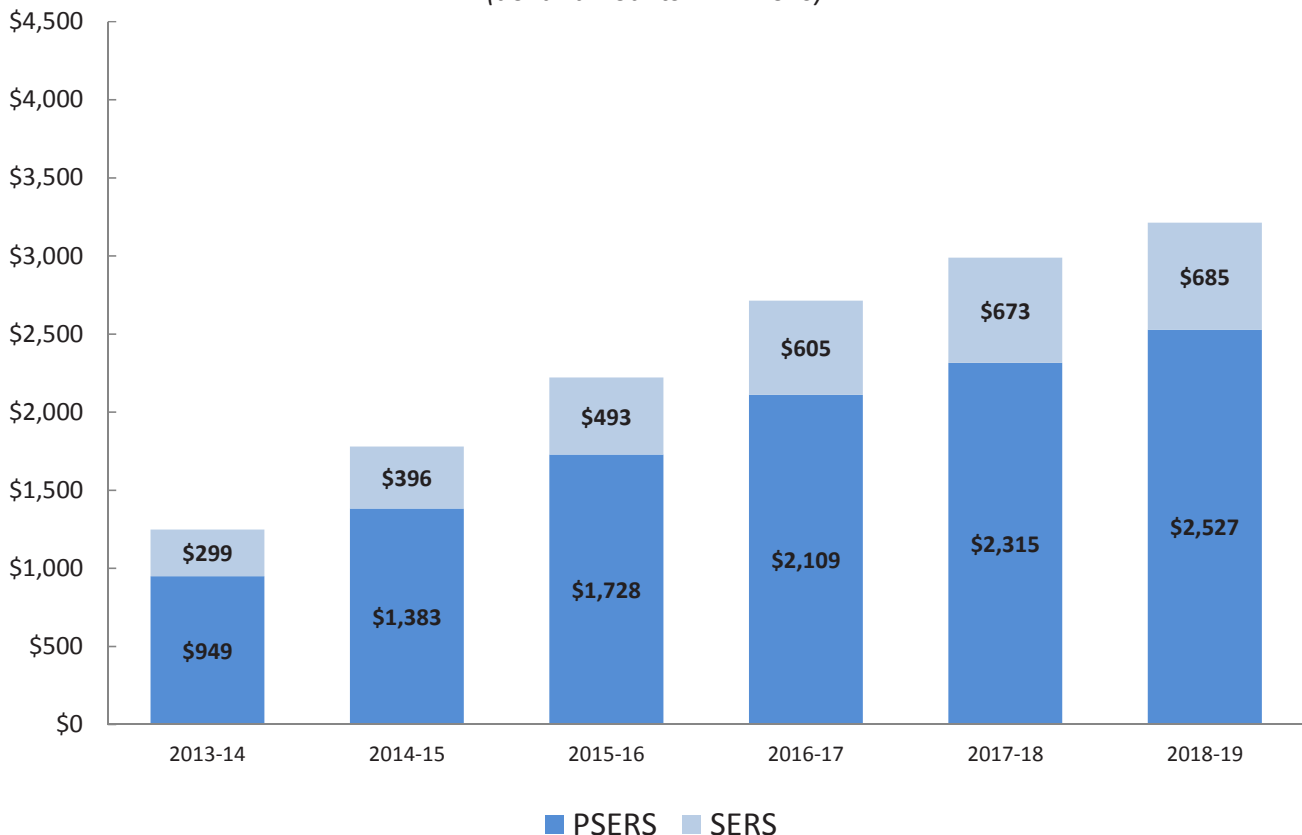
Reforming our pension systems

The proposed budget fully funds actuarially required contributions for both the State Employees’ Retirement System (SERS) and the Public School Employees’ Retirement System (PSERS). Finally meeting this obligation will enable the state to begin reducing a pension debt that has grown to more than \$65 billion.

While SERS contributions have significantly leveled off, payments to PSERS will increase by \$263 million next year. The combined payment increases for both systems during the past three years have totaled more than \$1.4 billion, nearly half of increased General Fund expenditures. Having made these investments, future growth of required payments will now fall significantly, along with our unfunded debt.

Implementation of pension reforms enacted in Act 5 of 2017 will lower costs and reduce taxpayer risk. The Pew Charitable Trusts estimates taxpayer risk will fall by more than 50 percent. Statutory changes are expected to reduce costs by an estimated \$5 billion or more. A new commission,

SERS and PSERS Contributions - General Fund Share
(dollar amounts in millions)



Protecting Taxpayers (continued)

established through Act 5, is charged with developing recommendations to guide both systems to further reduce costs for investment management fees by at least \$3 billion.

Future risk reduction results from the introduction of new hybrid benefit plans effective for state employees hired January 1, 2019 (SERS) and school employees hired July 1, 2019 (PSERS). New hires will have the option to choose among three retirement options. A defined contribution plan, most prevalent within the private sector, would allow employees to invest required employer and employee contributions among investment options of their choosing. Two hybrid options would combine a traditional defined benefit plan, with guaranteed returns on invested income, with smaller defined contribution options.

The pension commission will work with both retirement systems to review current investment practices to identify targeted investment strategies to reduce administrative costs and fees paid to private fund managers. Both systems have already adopted resolutions in anticipation of these efforts to set benchmarks to accomplish the \$3 billion savings target established in Act 5. These efforts must prudently assess long-term investment strategies to ensure annual investment returns continue to meet current 7.25 percent return assumptions.

Protecting services for older Pennsylvanians

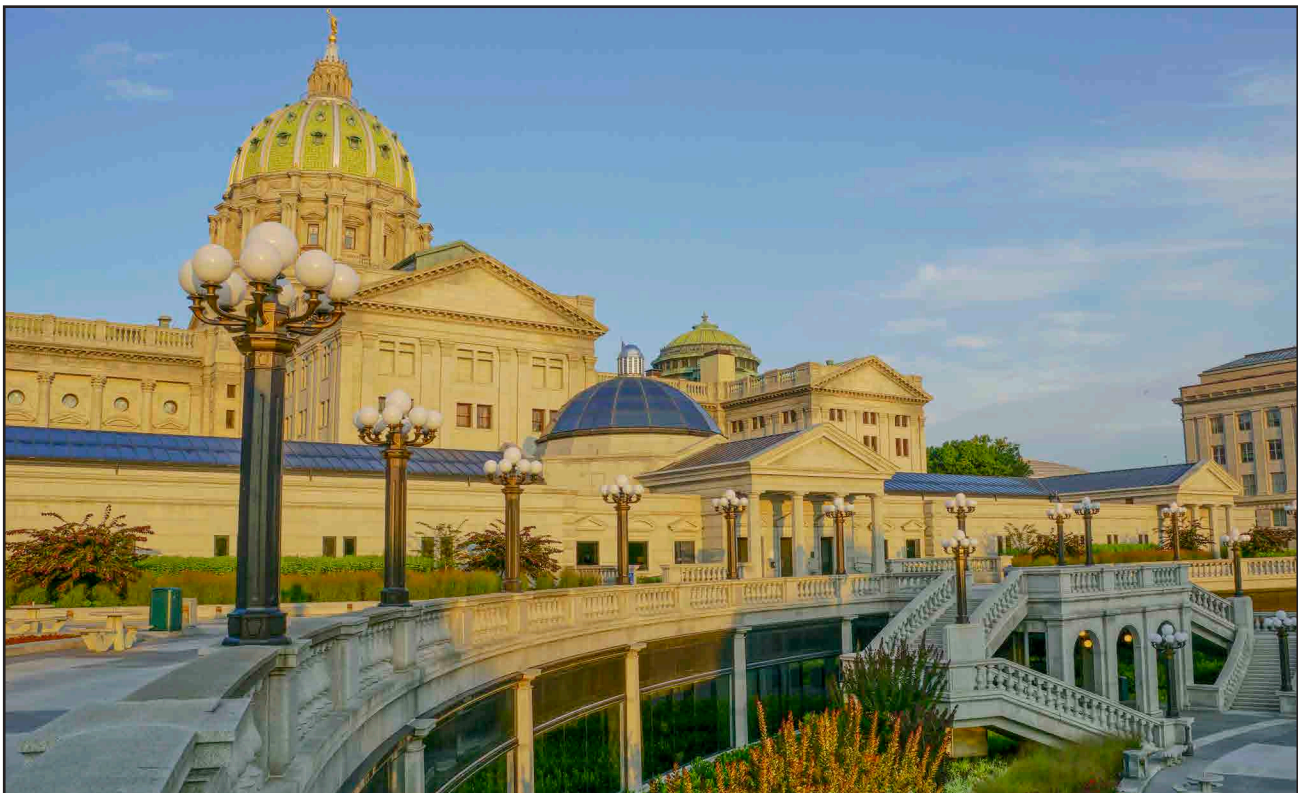
The Pennsylvania Lottery funds programs to support older Pennsylvanians. Lottery programs provide assistance

for prescription drugs, long-term care services to allow our seniors to age in place, free or reduced fares for mass transit, and property tax relief and rent rebate assistance for eligible seniors. Maintaining a solvent Lottery Fund requires constant effort to lower operational costs while maximizing competitiveness for Lottery games to increase profits.

Act 42 of 2017 enables the Lottery to launch new product lines, including iLottery games and terminal-based games for virtual sports and keno. Both products are designed to appeal to new and younger players. Implementation of iLottery will allow players to access games through mobile devices. Introducing new Lottery players can also benefit existing Lottery retailers, as demonstrated in other states where iLottery has previously been implemented.

Monitor-based games allow patrons to watch a simulated sports event or a number draw, most often in bars and taverns, again introducing Lottery games to a new group of players. When both products are fully implemented, they are expected to generate as much as \$150 million annually to fund programs for older Pennsylvanians.

These steps to improve the fiscal condition of the Lottery Fund provide the necessary revenue to re-establish a \$75 million reserve fund beginning in the 2021-22 fiscal year. Replacing recent short-term deficits with longer-term fund reserves will provide long-term stability for Lottery funded programs to support seniors.



Building a Workforce, Growing the Economy



Programs intended to strengthen our schools, build our workforce, and grow our economy are too often disconnected and disjointed. Governor Wolf is launching a new workforce development initiative that reaches across agencies to help all Pennsylvanians prepare for successful careers. PAsmart will be a phased approach to further strengthen workforce efforts at multiple agencies while aligning their work with K-12 and higher education. All Pennsylvanians should have the opportunity to build their lives and careers in Pennsylvania, because a good job is not only measured by a punch clock.

Today, work is a dynamic concept requiring a workforce adaptable to changing market forces, technology, and societal needs.

Pennsylvanians have never shied away from hard work, pursuing education opportunity, and seeking out training. Through this consolidated effort, Pennsylvania will have the most prepared, talented, and able workforce in the country.

We're not working harder; we're working smarter.
www.pa.gov/smart

CONTINUING INVESTMENTS IN EDUCATION AND WORKFORCE DEVELOPMENT

Governor Wolf has steadfastly fought to fund Pennsylvania's schools and invest in workforce development. The 2018-19 Budget builds on prior-year increases to provide an additional \$225 million to improve education opportunity for every student across the state, regardless of zip code and further ensure we have a workforce ready for the 21st century.

During the past three years, the governor has worked with the General Assembly to provide sustained support, totaling more than \$840 million in new education funding – nearly 30 percent of all General Fund increases over that time. Progress for all Pennsylvania schools to ensure students are college- and career-ready continues to be a priority in the 2018-19 Budget. The proposed budget plan will increase total education investments during the governor's first term by over \$1 billion.

The new investments include:

- \$100 million increase in Basic Education Funding. This increase builds on \$515 million in basic education and Ready to Learn Block Grant funding increases over the past three fiscal years. New funding will be distributed through the fair funding formula enacted in June 2016, providing an equitable and predictable allocation to school districts across Pennsylvania.
- \$20 million increase in Special Education Funding. This increase, allocated to school districts through the

formula adopted by a bipartisan Special Education Funding Commission, follows \$75 million in funding increases over the last three years.

- \$40 million increase in high-quality early childhood education. Children who participate in high-quality pre-k programs perform better in school, are more likely to graduate, and earn more throughout their lives compared to peers without access to early learning programs. Together with \$90 million in funding increases secured over the past three years, this additional investment will more than double the funding for Pre-K Counts programs since 2014-15 and increases funding for Head Start Supplemental Assistance by 64 percent. The new funding will allow nearly 4,400 additional children to enroll in the state's high-quality early learning programs.



- \$40 million increase in developing 21st Century Jobs and Skills. This additional investment will help to enhance Career and Technical Education programs and in-demand career pathways, promote employer engagement in postsecondary education, and enhance computer science education at all levels. An additional \$10 million increase is provided in the Department of Labor & Industry to increase apprenticeships and industry partnerships.
- \$10 million increase in Career and Technical Education Funding. Technical, skilled workers are in high demand to fill current and anticipated job vacancies across the commonwealth. Career and technical education programs, wherever possible, will partner with industry and postsecondary education institutions to provide students with industry credentials as well as articulation agreements to support student success beyond high school graduation. This \$10 million increase in traditional career and technical education funding will continue to ensure that Pennsylvania's secondary school systems can offer career and technical education

Building a Workforce, Growing the Economy (continued)

students the well-rounded academic and technical education they need to meet the robust demands of a 21st century global economy.

- \$15 million increase for the Pennsylvania State System of Higher Education. The governor will continue to work with the Pennsylvania State System of Higher Education (PASSHE), including its 14 state universities, as it undertakes a system redesign focusing on prioritizing and aligning its policy priorities and operations for student success. Of this total investment, \$1 million is dedicated to support Cheyney University.

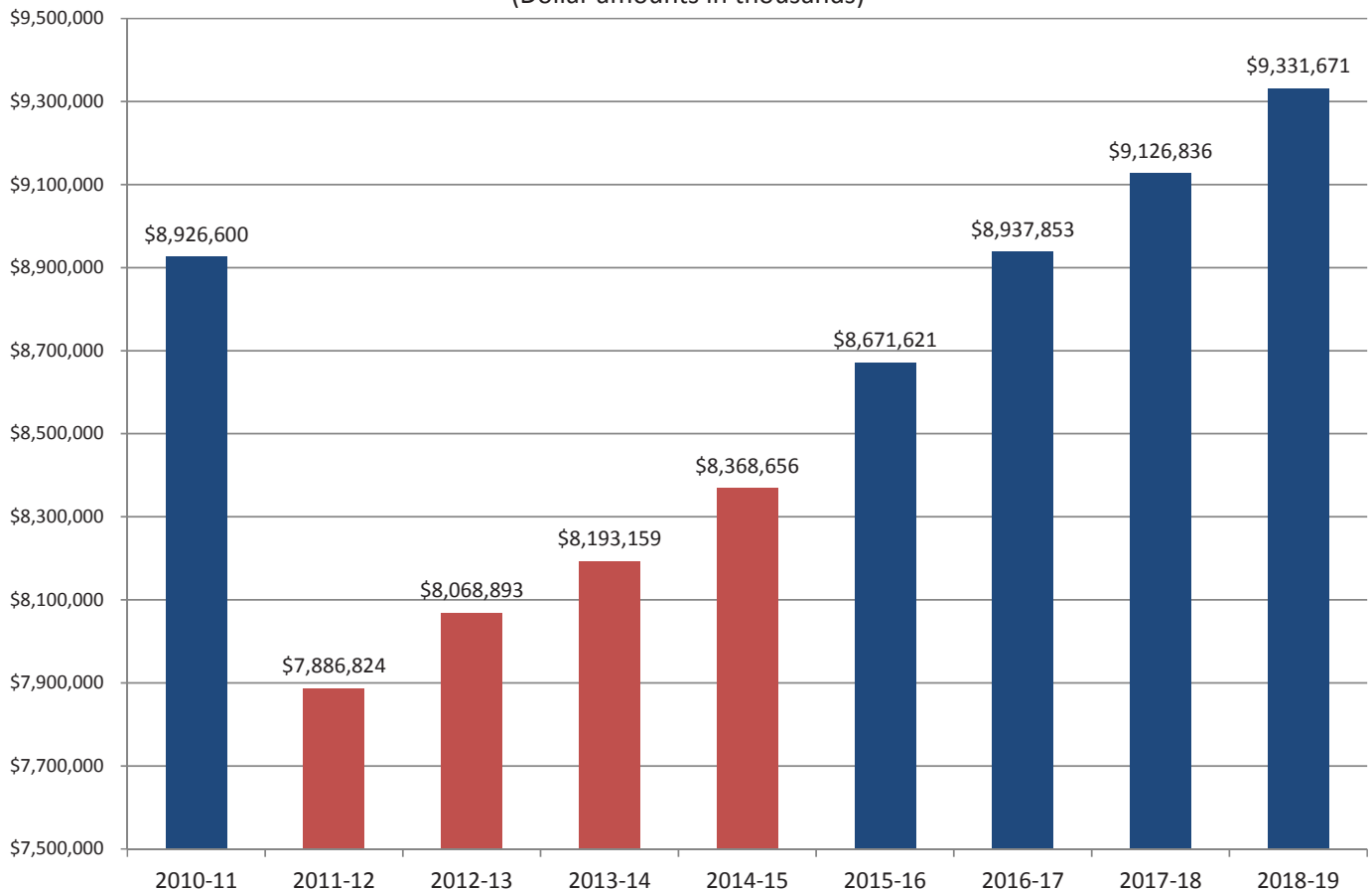
The positive impact of sustained funding increases, accompanied with the enactment of a more equitable and predictable school funding formula to distribute Basic Education Funding to Pennsylvania schools, is illustrated in the following ways:

- Expanded enrollment in Advanced Placement (AP) courses by 10 percent.

- Improved the statewide high school graduation rate, now above the national average at more than 86 percent in 2015-16.
- Increased the number of career and technical education (CTE) students earning industry-recognized credentials by 32.2 percent and increased the number of credentials earned by students enrolled in CTE programs by 28.4 percent since 2015.
- Continued to develop a skilled workforce with the 4th largest number of STEM graduates in the country.
- Built support to make computer science education available for all students by urging the state Board of Education to endorse rigorous K-12 computer science education standards in schools.
- Launched “It’s On Us PA” – the first statewide campaign to address the crisis of sexual violence in schools and on college campuses.

Pre-K to 12 Education Funding

(Dollar amounts in thousands)



Note: Excludes Authority Rentals and Sinking Fund Requirements.

PROMOTING 21st CENTURY JOBS AND SKILLS

The 2018-19 Budget proposes a strategic investment of \$50 million to improve access for Pennsylvania students and workers to education, training, and career readiness programs. These targeted investments for 21st century skills will assist employers to meet their workforce needs.

Pennsylvania must have a skilled workforce to compete in a global economy. Governor Wolf has established a goal based on employer demand that by 2025, 60 percent of Pennsylvanians will have some form of postsecondary education and training. Today, less than 47 percent of Pennsylvanians have those necessary credentials. Additionally, a significant skills gap, especially for “middle skills” occupations—those requiring an associate’s degree or less—persists. Restoring basic education funding levels and investing in early childhood and special education is just the beginning. The 2018-19 Budget builds on that foundation and prioritizes alignment of government investments across the education, workforce development, and economic development spectrum to achieve successful student and worker outcomes.

Recognizing the connectivity across Schools that Teach, Jobs that Pay, and Government that Works, Governor Wolf established a Middle-Class Task Force. Composed of bipartisan subject matter experts in the public, private, and non-profit sectors, the Task Force focused on future policy recommendations to confront current and future workforce challenges.

Regional round-table discussions across the commonwealth engaged students, business owners, jobseekers, educators, advocates, and legislators. Key themes emerging throughout these discussions emphasized the importance of making students and workers of all ages career-ready, strengthening meaningful business investment and employment opportunities, and ensuring community support.

PASmart will seek to align workforce development efforts across commonwealth agencies to more efficiently deliver services for all Pennsylvanians.

\$25 million to grow STEM and computer science related education in K-12 and postsecondary programs

Building on the governor’s strong commitment for STEM learning, the 2018-19 Budget invests in new initiatives to position Pennsylvania as a national leader in computer science education. Nearly 300,000 jobs in the commonwealth require skills in Science, Technology, Engineering, and Mathematics (STEM). Over the next decade, more than 70 percent of new jobs will require these skills.

The budget proposal targets **\$15 million for greater access to STEM and computer science related education**



and training for all students. Computer science pathway programs will provide high school students with the necessary credentials within a (2+2+2) framework. New and expanded secondary and postsecondary computer science course offerings and collaborations will be established, including dual-coded career technical education, computer science related certification and professional development as well as credentials and tuition, fees, paid work experience, and fellowship opportunities.

The budget provides **\$5 million to expand STEM and computer science related educator and staff development.** This funding will enhance quality and access to computer science education in the commonwealth. Partnering with education and workforce development stakeholders including intermediate units, local education agencies, educator preparation program and professional development providers, and industry leaders, these funds will support:

- Professional development opportunities for educators;
- Meaningful engagement and career exploration activities;
- Opportunities for afterschool and out-of-school programming; and
- Other evidence-based initiatives that improve access to STEM and computer science for all students.

The 2018-19 Budget invests **\$5 million for expanded postsecondary STEM computer science and related training programs.** Working with Pennsylvania’s community college and public university systems, funds will support adult learners and incumbent worker participation in computer science education and training as well as initiatives such as coding and other core competencies to gain in-demand skills. Priority funding will serve historically underrepresented students in high-need areas.

Building a Workforce, Growing the Economy (continued)

\$10 million to upskill Pennsylvania's workforce

Student access to multiple career pathways allows them to develop the knowledge, skills, and abilities necessary to compete in today's economy. Since Governor Wolf established the commonwealth's first Apprenticeship and Training Office (ATO) in 2016, Pennsylvania has increased the number of registered apprentices by 14.5 percent, from 13,282 registered apprentices to 15,208. Pennsylvania is a national leader in apprenticeship training, using innovative approaches to expand registered apprenticeships by working with small businesses, business advocacy groups, and labor organizations. The 2018-19 Budget invests an additional \$7 million in apprenticeship and work-based learning initiatives, with a goal of doubling the number of registered apprentices in the state by 2025.



Funds will support youth pre-apprenticeship and registered apprenticeship experiences as well as adult apprenticeship programs at the postsecondary level. Working collaboratively with the business community, community colleges, and other higher education providers, the ATO will expand access for registered apprenticeship and work-based learning experiences.

Employer engagement is essential to ensure our workforce has the necessary skills and abilities. The proposed budget invests **\$3 million to support Industry Partnerships** that, working collaboratively with public and private sector partners, have demonstrated a proven track record of success. Engaged employers partner with public workforce providers to be customer-centered and demand-driven. Funding will double the number of regional partnerships to identify and overcome the myriad of workforce challenges that impede economic growth.

\$10 million to develop Career and Technical Education and STEM career pathways

Participants in the Middle-Class Task Force roundtables emphasized the lack of information promoting career

opportunities in Pennsylvania communities, uncertainty regarding education and training requirements for high-quality careers, and a misalignment of traditional education and training programs with family-sustaining jobs and business demand. Access to career pathways for students and workers of all ages is essential.

The 2018-19 Budget invests **\$10 million to support new and innovative approaches to prepare students and adults for success in career and technical education (CTE) and STEM fields**. Priorities will focus on increasing associate degree attainment, making higher education more affordable by earning postsecondary credit through articulation and more cost-effective tuition models, and decreasing the time it takes for students and workers to enter or transition within the workforce.

\$5 million to promote employer engagement in postsecondary education

Business-education partnerships thrive in a K-12 environment where career awareness and exploration activities are business-driven to develop a future pipeline of workers. Moreover, the need for students to navigate and align career opportunities, expectations and requirements does not stop at the secondary level. The 2018-19 Budget proposes a \$5 million investment to spur employer engagement along the entire education continuum.

Up to ten business-education consortiums at the postsecondary level will be established or strengthened to address several goals:

- Align curriculum to regional and global workforce needs;
- Enhance career development and awareness for students, faculty, and staff;
- Improve job placement for postsecondary students of all ages upon graduation; and
- Focus postsecondary education programs to foster 21st century skills and competencies to increase employability in Pennsylvania.

ENSURING ACCOUNTABILITY

Across the entire education and workforce development system, new efforts will focus on developing a more transparent performance evaluation system. The establishment of a cross-agency and multi-sector public facing interactive data dashboard will inform policy priorities, program efforts and decision making around investments to support student, worker, and business success in the 21st century economy. Pennsylvania students, jobseekers, businesses as well as practitioners and policy makers will have access to data and information on public education and workforce system trends, activities, and outcomes.

Promoting career awareness and hiring opportunities

In order to appropriately guide Pennsylvania students and workers to career opportunities, professionals in the education system must have relevant insight and knowledge on 21st century skills and jobs in Pennsylvania.

Leveraging existing federal funding, the administration will work collaboratively with the Middle-Class Task Force to invest and promote meaningful career experience and professional development opportunities for Pennsylvania teachers, staff, and administrators across all Pennsylvania industry sectors.

Employer hiring and recruitment practices must extend beyond the traditional high school and college channels to seek available able-bodied and skilled workers where labor shortages exist. One in 28 Pennsylvanians is currently under criminal justice supervision. A Middle-Class Task Force business-led initiative will spearhead new efforts to break down barriers for those seeking employment or currently underemployed, but previously involved in the criminal justice system.

RAISING PENNSYLVANIA'S COMPETITIVENESS BY INCREASING THE MINIMUM WAGE

Governor Wolf remains committed to increasing the minimum wage to \$12 per hour for Pennsylvania workers in 2018. Thirty-two states and territories, including all neighboring states, now have higher minimum wage levels than Pennsylvania. Nearly 10 years after Pennsylvania's minimum wage was last increased, the cost of living has continued to rise, reducing the purchasing power of minimum-wage workers.

Pennsylvania workers earning the minimum wage must have the ability to afford basic family sustaining necessities – housing, groceries, transportation and child care – that enable them to avoid poverty and be productive workers. In fact, in 2018 a \$12 per hour minimum wage would reduce net entitlement costs for DHS programs by an estimated \$101 million annually, even after accounting for increased wages for direct care and child care workers. Net federal savings would be substantially larger exceeding \$600 million annually.

INVESTING IN PROVEN JOB CREATION PROGRAMS

Economic growth often depends upon partnerships between the public and private sectors. The 2018-19 Budget continues targeted investment in proven programs to create family-sustaining jobs and long-term progress.

The PA First program is a comprehensive tool to facilitate private capital investment, job creation and retention, and workforce development, specifically tailored to business

location and expansion here in Pennsylvania. The 2018-19 Budget provides a \$5 million increase to PA First, providing \$20 million for these initiatives. With this increase, the program is expected to create 3,800 jobs, retain 14,000 jobs, and leverage more than \$650 million in private sector investment. WEDnet, a workforce development tool providing training to Pennsylvania workers, will receive \$8 million of the total investment to assist approximately 735 companies and train nearly 40,000 incumbent workers.

Manufacturing is the third-largest industry in Pennsylvania employing over 550,000 workers with an average salary of nearly \$60,000. In October 2017, the administration launched Manufacturing PA, a new initiative to support manufacturing and link job training to career pathways. This initiative ensures that training leads not simply to any job, but to careers that provide higher pay and opportunities for advancement. Working with DCED's strategic partners, including Industrial Resource Centers (IRCs), Pennsylvania's colleges, universities, technical schools, and non-profit organizations, this initiative fosters collaboration and partnerships to accelerate technology advancement, encourage innovation and commercialization, and build a 21st century workforce.

Manufacturing PA funds \$12 million across three programs, each of which provide support for Pennsylvania's manufacturing community. The 2018-19 Budget continues this important investment.

- The **Pennsylvania Manufacturing Training-to-Career Grant Program** helps companies identify and train a skilled workforce while creating a workplace culture that enables employees to advance and the company to grow. Grants will be provided to Pennsylvania manufacturers who partner with technical and trade schools, community colleges, and those non-profit organizations that demonstrate both experience and expertise in deployment of successful development strategies.
- The **Pennsylvania Manufacturing Innovation Program** leverages the internationally acclaimed science and engineering talent and discovery capacity of Pennsylvania's major research institutions to help ensure that the commonwealth remains a world leader in manufacturing. This program includes a Manufacturing Fellows program, designed to support undergraduate and graduate student Fellows in both long- and short-term engagements with industry.
- **Pennsylvania's Industrial Resource Centers** are expanding their outreach to include small and medium-sized businesses, and continue to provide technical, strategic, and market-based assistance to Pennsylvania's manufacturing sector.

Supporting Opportunities for Women and Families

The 2018-19 Budget continues the work of the last three years by making further investments in programs that support women and families in an effort to close gender and wage gaps, and increase opportunities for women to compete in the workforce, contribute to the economic development of our communities, and feel protected from abuse and harassment.

Providing more children access to high-quality child care

The 2018-19 Budget invests **\$25 million in state funds, matched with \$5 million in federal funds, to expand access to high-quality child care.** These investments allow parents to balance working and raising their families.

This investment in high-quality child care will support low-income women and families in Pennsylvania struggling to stay in the workforce due to costly child care. Parents, but most often women, must frequently choose between joining or rejoining the workforce after the birth of a child or sending their children to low-quality child care providers. By increasing access to high-quality child care and providing tiered reimbursement for child care providers to incentivize quality care, women and families will be able to better balance working while raising their families.

This investment consists of:

- **\$10 million to provide more than 1,600 low-income children and families access to high-quality child care throughout Pennsylvania.** The commonwealth's subsidized child care program provides assistance to families with incomes below 200 percent of the Federal Poverty Income Guideline. This investment supports families' ability to work or attend school, while creating opportunity for children to spend time in high-quality early learning environments that support their development and school readiness.
- **\$10 million in state funds, and an additional \$5 million in federal funds, to increase STAR 2, 3 and 4-tiered reimbursement rates** to allow providers to recalibrate their enrollment profiles. This significant investment will improve equity and access to high-quality child care for Pennsylvania's youngest children. The proposed increase in tiered reimbursement rates support existing STAR 2 providers while creating an incentive for providers to move up in STAR level, and narrowing the gap between high-quality STAR 3 and 4 providers.
- **\$3 million to establish a one-year pilot program focused on children under age three,** enabling the Office of Child Development and Early Learning (OCDEL) to contract with STAR 3 and STAR 4

programs to serve infants and toddlers in high-quality settings. This pilot will improve access to and continued enrollment in high-quality early care and education programs for young children.

- **\$2 million to provide a per family rate increase for services provided through Nurse Family Partnerships and other home visiting models** to enhance capacity and address the increased cost of providing high-quality services. This cost-of-living increase will allow Nurse Family Partnership implementing agencies, many of whom are Community-Based Family Centers, to strengthen the existing infrastructure of evidence-based home visiting programs. In addition, this investment will allow implementing agencies to remain competitive in the market by employing and retaining high-quality staff.

Aligning Pennsylvania workplace standards with today's modern workforce and social realities

Wage inequity across genders perpetuates the cycle of poverty by reducing opportunities for women to contribute to family income and overall economic development of their communities. By working to close the gender wage gap, the administration affirms its commitment to empower women. Pennsylvania's 50-year-old Equal Pay Law must be modernized to address discriminatory pay, hiring, and employment practices that artificially and unnecessarily perpetuate gender pay gaps.

The administration is committed to working with the General Assembly to create opportunities for parents, women, and caregivers to address the needs of their families without facing negative repercussions in the workplace by guaranteeing earned sick leave. In businesses with 25 or more employees, allowing workers to earn one hour of leave for every 40 hours worked after a 90-day employment period, would enhance productivity and retention. In particular, this will increase opportunities for women and low-income workers who may have less flexibility and therefore are often forced to choose between caring for themselves and their loved ones or earning a paycheck.

To ensure that all individuals, wherever they work in the commonwealth, are protected under the law, the administration is committed to providing access to victim resources, including developing an anonymous reporting tool for victims of sexual misconduct. Additionally, the administration will be seeking changes to the Human Relations Act as well as other legislative reforms to modernize Pennsylvania laws. These steps encourage those who are less likely to report misconduct to come forward without fear of negative repercussions. This conduct is reprehensible, and we are dedicated to ensuring victims have a voice in state government and beyond.

Protecting the Most Vulnerable

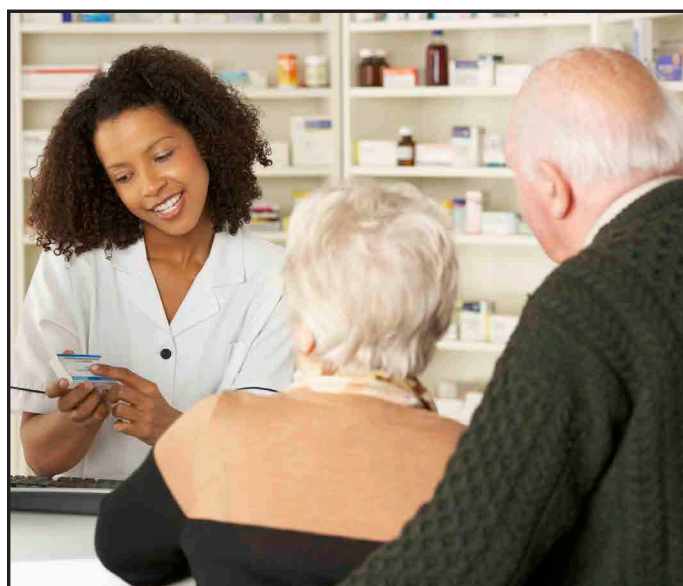
Maximizing resources for better service delivery

The proposed budget continues to build on efficiencies realized in last year's budget. To encourage more effective collaboration and service delivery, enhance program effectiveness, reduce administrative costs and eliminate duplicative operational expenditures, the administration remains committed to consolidating the Department of Health and the Department of Human Services into one, unified department. By breaking down silos and creating one health and human services agency, we will be able to provide care and assistance to Pennsylvanians in a more simplified, cost-effective manner, while ensuring the delivery of high-quality services and supports.

The administration has taken the first step in this process by recently creating a shared service delivery center for back-end administrative and budgetary functions of the departments of Aging, Drug & Alcohol Programs, Health, and Human Services. This will result in a single Deputy Secretary for Administration and single Office of the Budget, which will service all four agencies. By transforming these functions, we are operating more efficiently, ensuring financial resources are focused on delivering programs and services to the public.

Similarly, we are committed to building on the important and established foundations in each agency to improve services and provider experiences through a more effective collaboration and enhanced service delivery. Under the current structure, individuals must undergo separate intake and eligibility processes for services dispersed across both agencies. For example, 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, in many cases, discourages individuals from accessing services for which they are eligible. Consolidation of these services within one department will drive better outcomes and improve customer service.

Outpatient pharmacy services are currently provided through many separate programs. The administration has taken steps to consolidate these operations to reduce costs and increase efficiencies, while also maximizing state drug rebates when applicable. In the future, these changes could allow the commonwealth to further invest in the programs, including expanding coverage. None of these changes would be evident to any users of the systems and would only impact the back-end administrative functions of the programs. Our proposed budget plan would consolidate the PACE program with contracts for pharmacy services in Intellectual Disability Centers, Youth Development Centers,



and other facilities. While our initial approach is limited to human services-related pharmacy functions, this model could be applied across all agencies.

Continuing to fight the opioid abuse epidemic

The heroin use and opioid abuse epidemic continues to challenge the state's capacity to treat and respond to increasing fatalities, overdoses, treatment needs, and prevention and education resources. Pennsylvania has taken a coordinated and innovative approach to addressing the epidemic requiring the time and attention of all state agencies in some capacity. However, as overdose numbers continue to rise, it is clear much more must be done.

The 2018-19 Budget continues to place a significant emphasis on expanding access to substance use disorder (SUD) treatment, prevention, and education. Careful attention will be directed to ensuring that individuals suffering from SUD are steered into meaningful treatment and recovery rather than the criminal justice system whenever appropriate. Resources will be targeted to evidence-based home-visiting programs designed to assist new mothers struggling with substance use disorder and their babies to improve outcomes across the age continuum. Each of these strategies will balance a coordinated approach from state agencies with data and historical experience to deploy resources effectively and efficiently.

Specific investments include:

- \$26.5 million in federal funding is available from the second year of the 21st Century Cures Act. The Department of Drug and Alcohol Programs will use these funds to supplement existing efforts, support sustainable activities, and focus primarily on expanding access to treatment services with a heavy emphasis on Medication Assisted Treatment (MAT).

Protecting the Most Vulnerable (continued)

- An investment of \$2 million will continue last year's effort to increase the number of accredited specialty drugs courts, providing evidence-based treatment recommendations to criminal justice-involved Pennsylvanians. The additional funding will be used to further support the Pennsylvania Commission on Crime and Delinquency's effort to expand access to these drug courts throughout the commonwealth.
- The budget includes \$4.5 million to provide training to service providers and serve approximately 800 families affected by opioid use disorder through evidence-based home visiting models. Pennsylvania continues work to identify resources, break down barriers to treatment, and increase prevention and education efforts. Home visiting providers are uniquely positioned to assist in this effort. These programs empower pregnant women to begin and remain in recovery, provide education to prevent relapse, and educate expectant mothers about Neonatal Abstinence Syndrome. This outcome-based investment will also fund training for providers to assist infants who are born substance exposed, as well as the creation of multi-disciplinary teams.

Ensuring the best care for those with intellectual disabilities

The 2018-19 Budget provides an \$74 million increase for services for individuals with intellectual disabilities and autism. Within this total, the budget targets \$16 million to enroll 965 individuals with an intellectual disability or autism in waivers to provide supports and services so they can remain in their home and community. This includes the following:

- 100 individuals from the emergency waiting list into the Consolidated Waiver;
- 800 individuals into the Person/Family Directed Support Waiver and the Community Living Waiver;
- 40 individuals from the interest list into the Adult Community Autism Program (ACAP); and
- 25 individuals transitioning from State Centers to community placements.

Approximately 800 individuals with an intellectual disability or autism are leaving the Special Education system every year. This investment will fully alleviate the functional deterioration that occurs when individuals are home with no activity, helping families to avoid a service "cliff" at age 21. The Community Living Waiver is a cost-effective and high-quality alternative to serve those able to live at home and protect resources for those who must receive services in a residential setting. Investing in both the Community Living Waiver and the Consolidated Waiver will allow counties to meet the growing needs of existing participants and provide support for high school graduates.

Implementing Community HealthChoices

In January 2018, the Department of Human Services began the rollout of Community HealthChoices (CHC) in the Southwest region of the commonwealth. CHC, Pennsylvania's mandatory managed care program for dually eligible individuals and individuals with physical disabilities, will continue efforts to right-size our long-term care system.



This effort will serve more people in communities, allowing them the opportunity to work, spend more time with their families, and experience an overall better quality of life. Once fully implemented, CHC will give Pennsylvanians access to high-quality care in their homes, saving taxpayer dollars by avoiding more costly nursing home care.

CHC will be implemented in the Southeastern region in January 2019 with the goal of providing service statewide by 2020.

Preventing Lyme disease

The 2018-19 Budget provides **\$2.5 million to implement recommendations from the 2015 Lyme Disease in Pennsylvania Report**, issued by the Task Force on Lyme Disease and Related Tick-Borne Diseases. The initiative includes a variety of prevention, education, awareness, and surveillance activities to lower the prevalence of Lyme disease in Pennsylvania. Specific attention will be given to coordination among agencies, Lyme Disease advisory groups, contractors, and grantees. Data collection, analysis, and program evaluation are essential components of the program.

Increasing efficiency for birth certificate requests

The Department of Health and Human Services is receiving increased requests for birth certificates due to federal homeland security requirements for enhanced verification for boarding a domestic commercial flight or entering a federal building. The 2018-19 Budget proposes an additional **\$2.35 million to address this increase in requests as well as to reduce the processing time it takes to get a birth certificate** returned to the requester, in close coordination with the Department of Transportation.

Keeping Pennsylvania Safe

Piloting a State Police body camera program

The proposed budget provides **\$6 million to implement a pilot program for the State Police to purchase body worn cameras**. The Pennsylvania State Police are working to implement the requirements of Act 22 of 2017 for commonwealth law enforcement agencies. This effort will build upon a federally funded pilot program already begun during the current year.



Fair funding for police

Across the commonwealth, 67 percent of municipalities rely 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 support their own local police coverage through local taxes. To address this inequity, the 2018-19 Budget assesses a **\$25 fee for every person residing in a municipality without local police coverage**.

Following the completion of three new State Police Cadet classes during the current fiscal year, the fee proposal frees up funds for four additional classes beginning in 2018-19. **The four new classes are projected to add an additional 100 Troopers** to the current State Police enlisted filled complement levels with traditional retirement and turnover.

Upgrading the Statewide Radio System

A statewide radio system that provides reliable communication among public safety agencies is critical to ensuring a rapid and effective response to emergencies throughout the commonwealth. The State Police budget includes nearly **\$29 million for infrastructure and PSP radio purchases to continue the multi-year transition of the Pennsylvania Statewide Radio Network (PA-STARNet) to an Association of Public Safety Communications Officials (APCO) Project 25 (P25) compliant system**.

PA-STARNet is used by 22 commonwealth agencies, both houses of the legislature, business partners and other external organizations, including county and municipal agencies serving dispatch and mobile voice and data communications for public safety and emergency response. In addition to the funding provided for infrastructure and PSP radio purchases, the 2018-19 Budget includes **\$24.2 million across other funds and agency budgets for radio replacement**, in close coordination with the State Police Radio Office, to comply with the new P25 system.

Investing in our roads and bridges

The Department of Transportation (PennDOT) is responsible for maintaining and improving approximately 120,000 miles of state and local highways and 32,000 state and local bridges in Pennsylvania. Maintaining the transportation network requires strong partnerships among PennDOT, federal and local governments, planning partners, and our communities. The administration will invest \$300 million of Motor License Fund revenue for targeted road and bridge construction and maintenance over the next five years, including \$100 million in the 2018-19 fiscal year.

Expanded Maintenance Improvements. A one-time **\$50 million investment will expand maintenance improvements on low traffic state roads** throughout the commonwealth. Projects will use lower-cost pavement treatments, including recycled asphalt. This cost-effective strategy will allow for improvement on approximately 260 miles of Pennsylvania roadway.

Rural Commercial Routes. A new Rural Commercial Routes program will provide **\$40 million annually for the restoration and repair of state-administered rural commercial routes**. In establishing project priorities, the department will focus on repairing routes that have been impacted by overweight vehicle exemptions for local deliveries. This additional funding will improve an estimated 60 to 100 miles per year over the next five years.

Municipal Bridge Replacement and Rehabilitation. A new municipal bridge program provides **\$10 million annually for replacement or rehabilitation of locally owned bridges**. Bundling the replacement or rehabilitation of locally owned bridges with state-owned bridge projects will lower total project costs. Project coordination will also create economies of scale in design and construction management, saving both time and money. Of the 180 municipal bridges that have been structurally deficient for more than 15 years, approximately half of the bridges fit the criteria for bridge bundling. Up to 100 bridges will be replaced over the five-year period.

Protecting the Environment

Empowering the department to serve its customers

To enable the Department of Environmental Protection (DEP) to successfully fulfill its mission of protecting Pennsylvania's air, land and water, as well as the health and safety of its citizens, the 2018-19 Budget provides \$2.5 million in additional funding. Over the past 15 years, DEP's staffing levels have decreased by 40 percent as the department shouldered significant new responsibilities for the oversight of the natural gas sector and water and air programs. To continue to provide high-quality, responsive oversight, DEP must continue to invest in its operations. This funding will allow DEP to fill 35 mission critical positions throughout the agency.

The additional complement will focus on improving our ability to oversee high-hazard dams, ensuring adequate air monitoring support exists for areas that are impacted by natural gas drilling, and enable development by increasing capacity to review sewage expansion requests. By meeting regulatory obligations more effectively and efficiently, DEP will strengthen its commitment to building a Government that Works for the citizens of Pennsylvania.

Protecting Pennsylvania industry

The proposed budget includes \$1.597 million in new funding to support the Department of Agriculture's (PDA) coordinated effort to address Spotted Lanternfly. The funding will leverage additional federal dollars and create a rapid response team to step up efforts for detection and eradication of the pest. The team will oversee multi-agency responses,

outreach and training, and the purchase and distribution of supplies. While the administration has been in regular communication with federal partners about the need for additional federal support to contain this invasive species, resources are required immediately as a new generation of the pests will begin this spring.

Spotted Lanternfly is an invasive species native to China, India, and Vietnam, and unfortunately, recently introduced in southeastern Pennsylvania, where it has become a major pest. This insect has the potential to greatly impact Pennsylvania's grape, hops and logging industries, as well as the quality of life of residents who find their properties overrun by swarms of the insects.

To date, Spotted Lanternfly has been found in 13 eastern and southeastern Pennsylvania counties, but it is likely to spread, making it a threat to the entire state and our neighbors. Early detection and prevention is vital for the protection of Pennsylvania businesses and agriculture.

PDA has taken the lead on combating Spotted Lanternfly, in partnership with the U.S. Department of Agriculture (USDA), other governmental entities, higher education institutions, businesses, and the public. PDA has issued quarantine orders for each of the counties where Spotted Lanternfly has been detected to date and led a collaborative surveillance, control and eradication effort with its partners. The department has worked to educate the public to help identify new areas the pest has infiltrated and limit potential pathways by which it can spread.



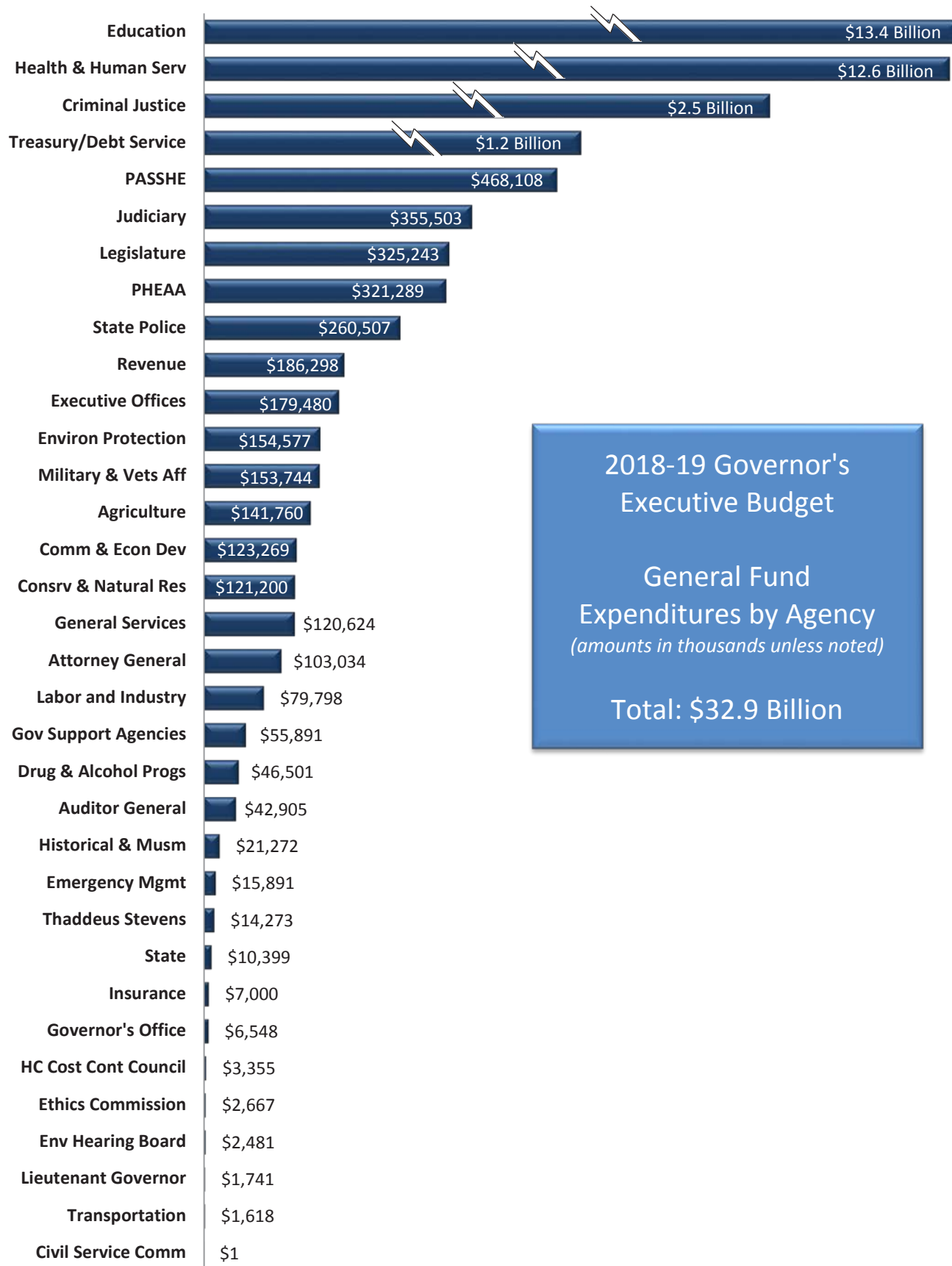
General Fund Financial Statement

	Dollars in Millions		
	2016-17 Actual	2017-18 Available	2018-19 Budget
Beginning Balance.....	\$ 2	\$ -1,539	\$ 41
Adjustment to Beginning Balance.....	3	15	.....
Revenues:			
Receipts.....	\$ 32,776	\$ 34,752	\$ 33,972
Adjustment to Revenue Receipts	-1,107	.....	.....
Proposed Revenue Changes.....	.....	.....	249
Less Refunds.....	-1,350	-1,385	-1,359
Prior Year Lapses.....	78	210	100
Funds Available	\$ 30,402	\$ 32,053	\$ 33,003
Expenditures:			
Total Appropriations.....	\$ 31,942	\$ 32,011	\$ 32,987
Supplemental Appropriations.....	.....	-14	.....
Total State Expenditures.....	\$ 31,942	\$ 31,997	\$ 32,987
Preliminary Balance.....	-1,539	55	15
Transfer to Rainy Day Fund .....	.....	-14	-4
Ending Balance	<u>\$ -1,539</u>	<u>\$ 41</u>	<u>\$ 11</u>

General Fund Revenue Sources

Source	Dollars in Millions		
	2016-17 Actual	2017-18 Estimated	2018-19 Estimated
Personal Income Tax	\$ 12,664.4	\$ 13,399.9	\$ 14,127.2
Sales and Use Tax	10,004.5	10,407.4	10,781.6
Corporate Net Income Tax	2,751.5	3,010.1	3,074.7
Gross Receipts Tax	1,230.5	1,229.4	1,229.9
Cigarette Tax	1,261.6	1,230.4	1,182.9
Other Taxes	2,839.9	2,881.2	3,213.2
Non-Tax Revenues	916.7	2,593.7	610.8
Total Receipts	\$ 31,669.0	\$ 34,752.1	\$ 34,220.3
Difference from prior year	767.4	3,083.1	-531.8
Percentage difference	2.5%	9.7%	-1.5%

General Fund Expenditures by Agency



Motor License Fund

INCOME

(Dollars in Millions)



Liquid Fuels Tax – \$1,839

Licenses and Fees – \$1,064

Other – \$18

Total Income	\$2,921
Beginning Balance....	197
TOTAL	\$3,118

OUTGO

(Dollars in Millions)



Highways & Bridges – \$1,492

State Police – \$770

Local Subsidy – \$341

Other – \$223

Licensing & Safety – \$200

Debt Service – \$53

Total Outgo	\$3,079
Ending Balance	39
TOTAL	\$3,118



Economic Outlook

The Forecast

Growth is expected to trend higher for the U.S. in the coming year as consumer spending, housing, and capital expenditures expand. The higher value of the dollar is largely due to the Federal Reserve's widening interest rate differentials in 2018, anticipating continuing growth in the U.S. economy. IHS Markit predicts that, on a trade-weighted basis, the dollar will increase 2-3% over 2018.

Table 1

Forecast Change in Key US Economic Indicators Annual Percentage Growth*				
Indicator	2016	2017p	2018p	2019p
Nominal GDP	2.6	4.1	4.7	4.6
Real GDP	1.5	2.3	2.6	2.3
Total Consumption	2.7	2.7	2.5	2.3
Corporate Profits (After Tax)	2.2	8.4	6.0	7.4
Unemployment Rate (Rate)	4.9	4.4	3.9	3.8
CPI	1.3	2.1	1.8	2.1
Federal Funds (Rate)	0.40	1.00	1.76	2.33

* Assumptions in this chart, as well as other assumptions, are incorporated in the 2018-19 fiscal year revenue estimates
p = projected

Table 1 and Table 2 are U.S. macro forecast projections from IHS Markit. 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 moderate 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. 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 continue to provide jobs in the mining industry. The state may also attract jobs in

Table 2

U.S. Macro Forecast Projection from IHS Global Insight December 2017	
Baseline Forecast (65% Probability)	
GDP Growth	Moderate growth, 2.3% in 2017 and 2.6% in 2018
Consumer Spending	A key driver of growth, up 2.7% in 2017 and 2.5% in 2018
Business Fixed Investment	Rebounds 4.7% in 2017 as equipment and structures spending picks up, and then moderates to 4.1% in 2018
Housing	Gradual improvement, with 1.4 million starts by fourth quarter 2019
Exports	Climb 3.1% in 2017 and 4.3% in 2018 due to stronger economic growth in countries to which the United States exports
Fiscal Policy	New administration fosters bipartisan agreements that fund existing obligations without interruption
Monetary Policy	Federal Reserve anticipates three federal funds rate hikes in 2018, ending the year at 2.25%
Credit Conditions	Gradually easing
Consumer Confidence	On an upward trajectory until third quarter 2018
Oil Prices (Dollars/barrel)	Brent crude oil averages \$54 in 2017 and \$56 in 2018
Stock Markets	The S&P 500 rises 16.9% in 2017 and 7.1% in 2018
Inflation (CPI)	Both headline and core CPI inflation average 2.0% over 2017-19
Foreign Growth	In 2017, Eurozone growth rises to 2.4%, while China's growth edges up to 6.8%
U.S. Dollar	The inflation-adjusted dollar peaks in the second quarter of 2018, then depreciates for the rest of the forecast interval

Economic Outlook (continued)

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 focus on 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. Tech giants Google and eBay have recently moved into the area, while Westinghouse is in the process of expanding its headquarters in the region.

The Port of Philadelphia is reporting sharp increases in import volume. This is due to the expansion of the Panama Canal that has reduced the cost to ship from the Pacific Ocean to the East coast. Pennsylvania is investing \$300 million in the Port of Philadelphia to increase capacity and compete against other ports on the Eastern seaboard. The Port has reached a deal with Hyundai to handle 150,000 cars annually through the port. The related facility will employ approximately 400 workers.

South-central Pennsylvania continues to grow as a distribution hub for the northeast region. Norfolk Southern is building an intermodal terminal southwest of Harrisburg. Their \$95 million facility is part of the "Crescent Corridor" project, a rail corridor from Louisiana to New Jersey.

Education and healthcare sectors remain a vital part of the state economy. The healthcare sector expects to benefit from increased demand building upon expanded insurance coverage already provided through the Affordable Care Act. Pennsylvania also boasts many top-flight research hospitals that draw patients from outside the state. The state's education providers, especially its notable research universities, not only provide jobs on campus but also help to nurture new businesses with the graduates they produce.

Pennsylvania is expected to add jobs at an annual average rate of 0.7% between 2018 and 2020. The healthcare sector continues to be a reliable source for new jobs and investment, while construction expands due to increased activity in residential and commercial development, as well as infrastructure spending. Overall employment growth in Pennsylvania is expected to be 1.1% for 2018. The state's unemployment rate will continue to fall below its current 4.7%.

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)	647,708	659,477	673,237	685,195	696,365	706,862
Real Gross State Product (percentage change)	0.6%	1.8%	2.1%	1.8%	1.6%	1.5%
Total Employment (in thousands)	5,886.6	5,952.2	6,015.2	6,061.3	6,079.4	6,081.6
Total Employment (percentage change)	0.9%	1.1%	1.1%	0.8%	0.3%	0.0%
Manufacturing Employment (in thousands)	558.3	553.3	563.3	571.9	576.3	577.5
Nonmanufacturing Employment (in thousands.)	5,328.3	5,398.9	5,451.9	5,489.4	5,503.1	5,504.1
Population (in thousands)	12,783.7	12,782.4	12,788.3	12,798.8	12,813.9	12,831.4
Population (percentage change)	-0.1%	0.0%	0.0%	0.1%	0.1%	0.1%
Unemployment Rate (percentage)	5.5%	4.9%	4.3%	4.1%	4.1%	4.3%
Personal Income (percentage change)	1.8%	2.9%	4.0%	4.3%	4.3%	4.0%
U.S. ECONOMY						
Real Gross Domestic Product (percentage change)	1.5%	2.1%	2.3%	2.4%	1.9%	1.8%
Employment (percentage change)	1.8%	1.5%	1.5%	1.3%	0.7%	0.4%

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