



GOVERNOR TOM WOLF

Executive Budget In Brief

2021-2022



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

February 2, 2021

To the People of Pennsylvania:

The last year has been one of the toughest years Pennsylvania has confronted in recent history. We have faced a pandemic that strained our health care system, social safety net, and economy. The impact of this pandemic is felt by nearly every Pennsylvanian through the loss of loved ones, jobs, and the feeling of safety. We have also had to face the inequalities from years of systemic racism that have created large gaps in our society that many minorities struggle to overcome. We cannot ignore these issues. We must take this as challenge to grow and change.

The last six years have given us the opportunity to make strategic investments in our workforce, education system, and supports for our most vulnerable populations, which has helped us weather the last year. Increased funding to education over the last six years allowed school districts to quickly change from in-person education to online classes. The implementation of Community HealthChoices and expansion of Medicaid improved services and health care for our most vulnerable Pennsylvanians.

As Pennsylvania rebounds, the 2021-22 budget makes key investments to propel us forward and recover faster. This budget focuses on making our state tax system more progressive while fully and fairly funding our schools for the first time. Equitable and full funding of education will benefit all Pennsylvanians as we invest in our future.

Again, I am calling for a path to \$15 an hour for the commonwealth's minimum wage to provide a fair wage for all Pennsylvania workers. In addition, the Back to Work PA program, which provides an investment to support our businesses and workers that were most impacted by the pandemic, is a critical piece to helping Pennsylvanians back into the workforce and supporting our small businesses.

Beyond these budget initiatives, the next year must include policy reforms that focus on making our criminal justice system fair, efficient, and restorative. Similarly, the legalization of adult-use cannabis will begin to eliminate the harm that has been caused in our society by the criminalization of marijuana.

The 2021-22 budget proposal is a comprehensive package of initiatives and investments that will rebuild our economy, break down societal and economic barriers, and keep Pennsylvania on a path to prosperity. I look forward to continuing to work with all members of the General Assembly to move our commonwealth forward.

Sincerely,

A handwritten signature in black ink that reads "Tom Wolf".

Tom Wolf



COMMONWEALTH OF PENNSYLVANIA

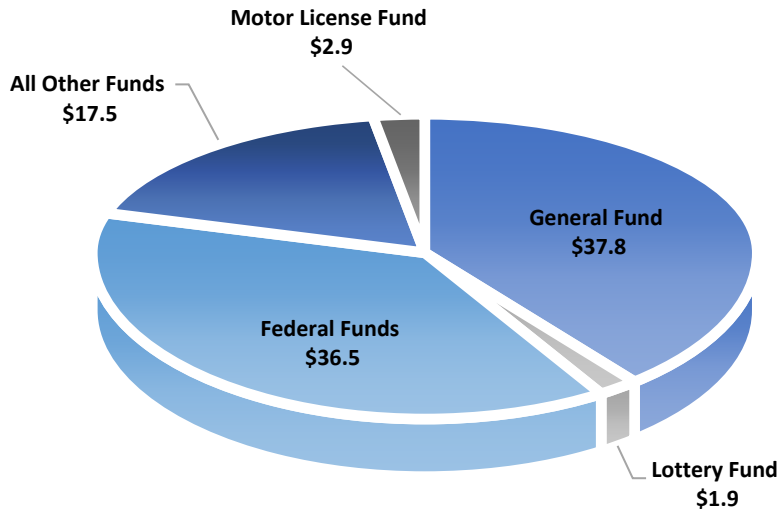
2021-2022 BUDGET IN BRIEF

For a complete copy of the
Governor's Executive Budget
and additional budget information,
visit our website:
www.budget.pa.gov

Table of Contents

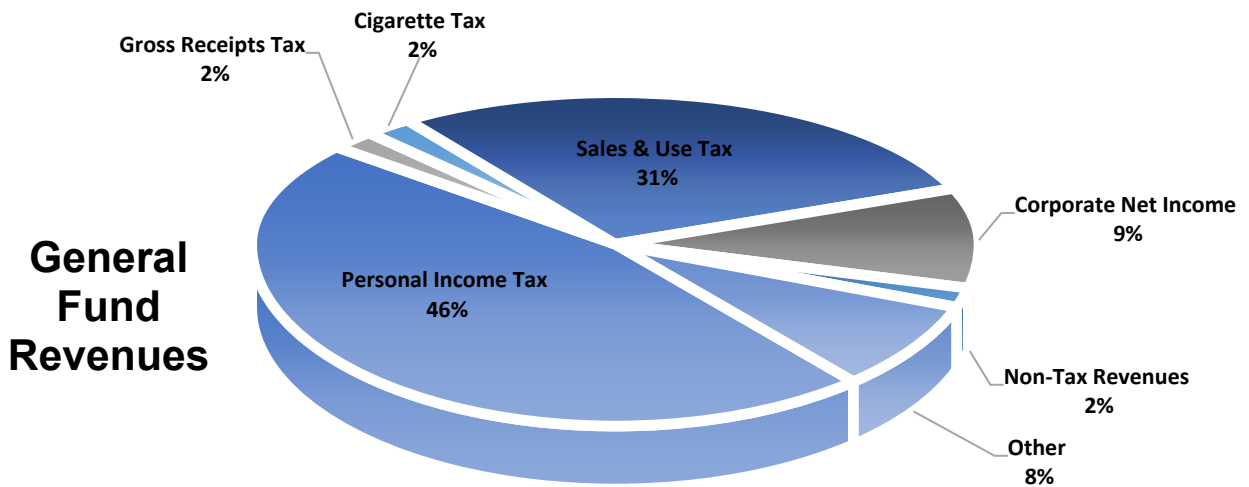
Budget Overview	4
Budget Highlights	5
Introduction	7
Prioritizing Education	8
Investing in Our Kids	8
Advancing Fairness, Equity, and Quality in Our Public Education System	9
Making College More Affordable	10
Advancing Pennsylvania’s Economic Recovery through Business, Agriculture and Workforce Investments	11
Back to Work PA	13
Keeping Pennsylvanians Safe through Criminal Justice Reforms	14
Protecting the Most Vulnerable	16
Increasing Local Capacity to Fight COVID-19	17
Protecting our Environment by Investing in Workers, Communities, and a Clean Future..	18
Repairing and Improving Our Infrastructure	19
Making the Tax System More Equitable	19
General Fund Financial Statement	20
General Fund Revenue Sources	20
General Fund Expenditures by Agency	21
Motor License Fund	22
Economic Outlook	23

Budget Overview

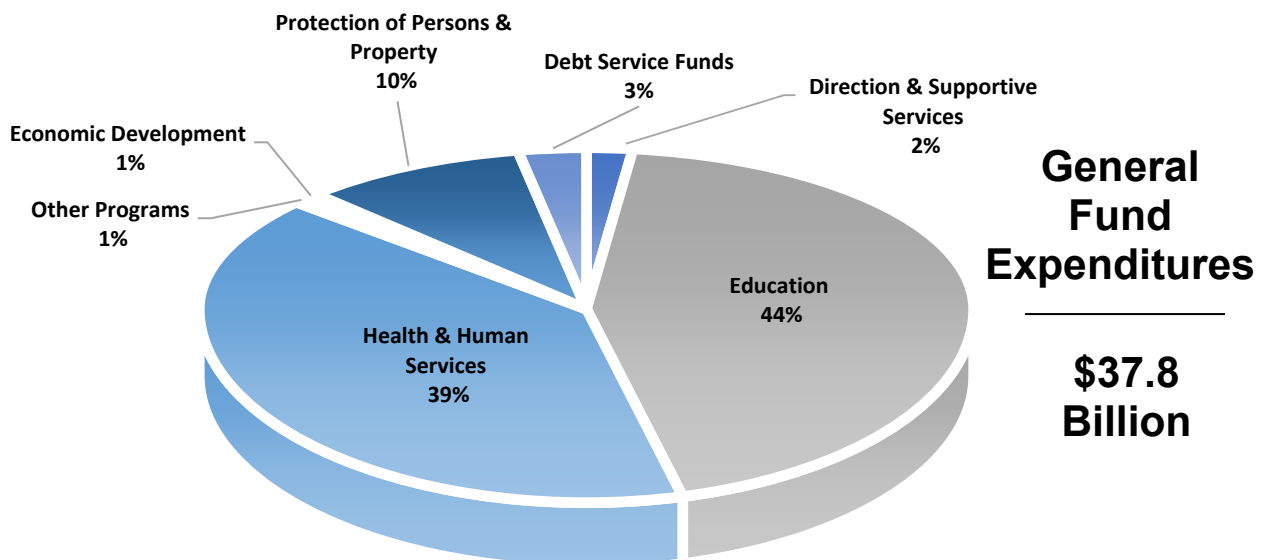


Total Operating Budget

\$96.7 Billion



General Fund Revenues



General Fund Expenditures

\$37.8 Billion

Budget Highlights

Over the past six years, Governor Wolf has made historic investments in education, expanded workforce development programs, addressed the opioid epidemic, established several safety programs through criminal justice reforms, continued efforts to protect the most vulnerable, worked to repair and improve the state's infrastructure, and improved state government efficiencies.

The 2021-22 budget continues to invest in these initiatives while also increasing access to healthy food, spurring economic recovery, fairly and fully funding education, and working hard to ensure all Pennsylvanians receive the care and resources needed to fight COVID-19.

The General Fund budget is \$37.837 billion, an increase of \$3.788 billion, or 11.1 percent over the prior year

Investing in Our Children

- Proposes a historic \$1.35B increase in Basic Education funding, including \$1.15 billion to direct all existing state-level basic education funding through the Fair Funding Formula and include an adjustment so that no school district is negatively impacted and an additional \$200 million increase
- Continues Governor Wolf's commitment to investing in education at all levels, including a \$25M increase for Pre-K Counts; a \$5M increase for the Head Start Supplemental Program; and a \$200M increase in Special Education
- Includes a \$87.17M increase in federal funds for rates in Child Care Works to create a more stable business environment for child care facilities and to ensure equal access to these services
- Invests in our state's Early Intervention program by providing an \$11M increase to fund an additional 2,000 slots for children ages 3 to 5
- Proposes comprehensive Charter School Law reform that is estimated to save school districts an approximate \$229M per year, including establishing a statewide cyber charter tuition rate of \$9,500 per student per year and applying the special education formula to all charter schools
- Creates transparency in education tax credit programs by lowering the maximum administrative set-aside from 20 percent to 5 percent for scholarship organizations participating in education tax credit programs, allowing for up to an additional \$36M in student scholarships without an increase in taxpayer aid
- Repurposes \$199M from the Pennsylvania Race Horse Development Trust Fund to support the Nellie Bly Tuition Program which will provide financial assistance to full-time PASSHE students who agree to stay in Pennsylvania for the same number of years for which they receive the benefit

Advancing Pennsylvania's Economic Recovery Through Business, Agriculture and Workforce Investments

- Utilizes funding from the U.S. Department of Labor to develop and publish reports identifying the licensure challenges of immigrants, veterans, military spouses, and out-of-state workers
- Provides support and removes barriers for our active-duty servicemen and women to ensure a seamless transition back to civilian employment
- Proposes an increase to the state's minimum wage to \$12 per hour on July 1, 2021, with a path to \$15 per hour
- Invests in new manufacturing opportunities and expands critical recovery support for entrepreneurs and businesses throughout the state
- Invests \$1.5M in the seven Industrial Resource Centers that have historically provided critical services to small- and medium-sized manufacturers throughout Pennsylvania
- Proposes another \$1.5M in awards to the Partnerships for Regional Economic Performance Network, Small Business Development Centers, Local Development Districts, and Industrial Development Organizations for purposes of incentivizing these partners to collaborate with institutions of higher education to assist businesses in their economic recovery
- Improves food security and supports farmers by investing \$1M in the Pennsylvania Agriculture Surplus System
- Ensures adequate supports for military communities by investing \$500,000 to help prevent base closures which results in the loss of family-sustaining jobs
- Provide \$3B to workers and businesses to stabilize the economy and recover from the COVID-19 pandemic through Governor Wolf's ambitious Back to Work PA plan

Budget Highlights

Keeping Pennsylvanians Safe

- Assesses a fair police service fee, based on station coverage costs, population, income and other factors, to all communities benefiting from police services provided by the Pennsylvania State Police
- Builds upon the passage of Acts 57 & 59 of 2020, by implementing community policing improvement measures, expanding upon accreditation of police departments throughout the state, and cultivating positive relationships between community members and law enforcement personnel
- Proposes comprehensive cash bail, probation and medical release reform measures and expands upon the state's successful Clean Slate law, all of which strives to produce savings for state and local governments without negatively impacting public safety
- Addresses deficiencies that have undermined the commonwealth's constitutional mandate to provide fair and adequate legal representation to indigent defendants by complying with national standards
- Implores the General Assembly to address the negative impacts of wrongfully convicted individuals by joining 35 other states to provide financial justice to assist in restoring the lives of those who were wrongfully incarcerated

Protecting Our Most Vulnerable

- Provides \$1M to expand legal services to low-income individuals and families
- Proposes comprehensive direct care worker training through the Participant Directed Model which will provide career pathways throughout the continuum of long-term services and supports
- Commits \$1.25M to 20 Community Hospital Integration Project Program discharges from state hospitals
- Funds an additional 732 Community Living Waiver slots and 100 Consolidated Waiver slots to provide individuals on the emergency waiting list with home and community-based services
- Funds new outcome-based incentives to encourage expansion of independent living and reduce costs of residential services which is expected to save approximately \$828,000 in the 2021-22 budget
- Invests \$1M to reduce the number of children and youth in out-of-home placements triggered by homelessness, housing instability, or inadequate housing and promote family stability and reunification
- Invests \$8.3M in the ten county and municipal health departments throughout the state (including support for the establishment of the Delaware County Health Department in January 2022) to fight against COVID-19

Environmental Protection, Infrastructure Improvement and an Equitable Tax System

- Proposes that a portion of Regional Greenhouse Gas Initiative proceeds be deposited into a newly created Energy Communities Trust Fund to provide direct support to dislocated workers and communities experiencing impacts from the closure of existing power plants and economic hardship
- Proposes investments in greenhouse gas abatement, energy efficiency and clean and renewable energy program to help reduce air pollution in Pennsylvania
- Dedicates proceeds to help the vital contributors to Pennsylvania's economy in the industrial and commercial sectors in Pennsylvania to reduce their greenhouse gas emissions
- Expands the Redevelopment Assistance Capital Program (RACP) by \$1 billion to include grant availability for lead and asbestos remediation projects within schools
- Proposes to close the Delaware Loophole, make the commonwealth more competitive and improve business climate by lowering the Corporate Net Income Tax from 9.99% to 8.99% on January 1, 2022, then incrementally to 5.99% by 2026, as well as instituting combined reporting
- Advances the governor's goal to make the Personal Income Tax more fair and equitable through expansion of the special tax forgiveness credit and establishing a new rate of 4.49 percent

Introduction

Over the past six years, Governor Wolf has invested millions in the Pennsylvania workforce and economic development programs in order to boost the competitiveness of the commonwealth and make it a place where everyone wants to live, work, and play.

Under Governor Wolf's leadership, more than a billion dollars in cuts have been restored to the public education system across the continuum from early childhood to Pennsylvania's world-class higher education institutions. Efforts to reform the occupational licensure system in Pennsylvania have resulted in fewer barriers and more opportunities for working-class families across the commonwealth. Bipartisan efforts to establish the medical marijuana program, pass the nation's first Clean Slate legislation, combat the opioid epidemic, invest in farmers through the Pennsylvania Farm Bill, and create a tuition repayment program for National Guard members and their families have made Pennsylvania stronger and more resilient.

However, 2020 presented some unprecedented challenges amid the COVID-19 pandemic. Last March, businesses of all shapes and sizes were shuttered overnight to stop the spread of the virus. Schools and office buildings were closed and in many cases, forced into a world of remote learning. The economy ground almost to a halt. Thousands of Pennsylvanians died from COVID-19, and many more have suffered from the pandemic's far-reaching impacts. The holes in the social safety net, the gap between rich and poor, and the years of systemic racism and its resulting inequities have never been more glaring.

The 2021-22 budget is an opportunity in the face of these challenges. The proposed budget prioritizes equity, fairness, and accountability. It invests in Pennsylvanians from all walks of life by making the state tax system more progressive, fully and fairly funding schools for the first time in history, increasing the minimum wage, and leveling the playing field between charter schools and traditional public schools by proposing real, meaningful reform that will only serve to benefit students and future leaders.

This budget invests in businesses and aims to make Pennsylvania more competitive by lowering the Corporate Net Income Tax and closing the Delaware loophole. It proposes reforming the Education Investment Tax Credit program to ensure fewer dollars can be kept for administrative purposes, redirecting millions back to low-income students in need of scholarships. Strategic investments are being proposed in workforce and agriculture, and recommendations are being carried forward from the Keystone Economic Development and Workforce Command Center that will enable better access to higher education and a more seamless transition from the military to civilian life for veterans.

In light of the pandemic, an ambitious workforce and economic development investment program, Back to Work PA, is necessary to provide significant support for businesses and workers most significantly impacted by the pandemic and focus on high-quality well-paying jobs and careers. This bold new plan further builds on the recommendations from the Keystone Economic Development and Workforce Command Center to ensure a rapid rebuilding of our economy, ensuring prosperity for generations to come.

Additional criminal justice reforms build on years of bipartisan efforts to make Pennsylvania more fair and efficient. Such proposals call for bail, probation, and medical release reform; the establishment of an Indigent Defense Compensation program bringing Pennsylvania in line with every other state in the nation; and an expansion of the Clean Slate law to cover more individuals.

Finally, in order to further restorative justice initiatives and assist with state's economic recovery, Governor Wolf intends to pursue the legalization of adult-use cannabis. The revenue generated from legalization could be used to support historically disadvantaged small businesses through grant funding, and provide them the assistance they need to build back from the economic crisis and strengthen our economy. Additionally, a portion of the revenue could support restorative justice programs to help the individuals and communities that have been adversely harmed by the criminalization of marijuana. Combined, these initiatives will serve as a step forward in reversing the decades of injustices, economic harm and trauma caused by marijuana criminalization, particularly on minority communities.

While the economic and public health consequences of the pandemic are yet to be fully realized, this budget is a marker and a beginning to a path of recovery. This budget supports recovery through fairness, equity, and accountability and moves all Pennsylvanians forward together.

Budget Themes

Prioritizing Education

Governor Wolf has prioritized strengthening Pennsylvania's educational opportunities because education positively influences nearly every other part of society. From creating a strong workforce to reducing crime, Governor Wolf's investments in education at all ages have helped propel Pennsylvania to a more prosperous future.

During the past six years, Governor Wolf has secured an additional \$1.4 billion in funding for pre-K through college, including nearly \$800 million for basic education, \$140 million for special education, and \$40 million for career and technical education. This is not nearly enough. This budget proposal more than doubles this investment in education. The innovative PAsmart program introduced new STEM and computer science programs into hundreds of schools across Pennsylvania, helping advance the state to fifth in the nation for the number of STEM graduates.

Governor Wolf has sought to bridge the gap between the classroom and employment by supporting career and technical education and building a new apprenticeship program. Throughout his administration, the number of career and technical education students earning industry-recognized credentials has increased by 34.2 percent, while the number of registered apprentices has risen to over 17,000.

The 2021-22 budget builds on successful education and workforce development programs, further extending high-quality education to more Pennsylvanians.

Investing in Our Kids

Continuing Fair and Equitable Investments in Education to Build the Best Workforce in the Nation

Over the past six years, the governor worked with the General Assembly to reverse historic cuts to education and invest \$1.4 billion in new resources for Pennsylvania's public education system. The 2021-22 budget **more than doubles that investment** in education funding to build on this progress and ensure every Pennsylvania student is college, career, and community ready.

The new investments for classroom funding include:

1. **\$1.35 billion increase in Basic Education Funding.** This investment directs all existing state-level basic education funding through the Fair Funding Formula and includes an adjustment so that no school district is negatively impacted. An additional \$200 million investment in basic education funding is proposed to allow all districts to continue to invest in student achievement. This investment enables all school districts to have the basic resources they need to provide a high-quality education for Pennsylvania students.
2. **\$200 million increase in Special Education Funding.** This investment ensures school districts have the basic resources they need to provide high-quality special education services to students with disabilities and special needs.

Increasing Funding for 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. The 2021-22 budget proposes **\$25 million** for Pre-K Counts and **\$5 million** for the Head Start Supplemental Program. This new funding will allow 3,271 additional children to enroll in the state's high-quality early learning programs. Over Governor Wolf's term, the commonwealth has doubled its investment in early child education, but more children need this once-in-a-lifetime opportunity to enter kindergarten ready to grow and thrive.

Stabilizing Child Care and Ensuring Equal Access for Families

In Pennsylvania's subsidized child care program, Child Care Works, reimbursements have not been meeting the rising cost to operate child care as a business. Additionally, the strain of the pandemic has put added pressure on these critical providers. In order to support child care access and affordability for low-income working families, the administration is increasing payment rates for subsidized child care to keep pace with rates for private-pay families and ensure equal access

Budget Themes

to child care for all Pennsylvanians as of March 2021. The 2021-22 budget includes **\$87.17 million** in additional federal funds to support these increased Child Care Works base rates and create a more stable business environment for child care facilities while improving equal access to child care services.

Increasing Access to Early Intervention Services

Early Intervention (EI) ensures that children birth to age five with developmental delays or other established factors that put them at risk of substantial delay have the best chance for healthy development. EI provides children with a range of developmental and social-emotional services, including speech and language, occupational and physical therapies, and social work services. Families also receive the coaching and support they need to further the gains their children make in therapy. EI serves children from all income levels and in every county across the state. The 2021-22 budget includes **\$11 million** for 2,000 additional slots for children age 3 to 5.

Advancing Fairness, Equity, and Quality in Our Public Education System

Attracting and Retaining the Best Teachers for Our Children

In the past 10 years, Pennsylvania has experienced a growing teacher shortage and shrinking pipeline of new teachers, especially in rural and urban districts, and hard-to-fill areas like special education, English language instruction, and STEM. One factor driving this trend is financial pressure due to low teacher salaries, as well as job requirements for college and advanced degrees.

Providing competitive wages is essential to attracting and retaining qualified education professionals. Pennsylvania arbitrarily sets minimum compensation for Pennsylvania teachers and other education professionals, including counselors and school nurses, at a 1980s-level of \$18,500 per year. This salary assumes a 40-hour workweek, even though most educators spend many hours out of the classroom preparing lesson plans and reviewing student assignments. The current statutory minimum salary fails teachers, students, and families. Increasing the minimum salary to **\$45,000 per year** will better align with competitive salaries and the cost of living, and ensure the commonwealth can attract the highest quality talent to educate Pennsylvania's children.

Comprehensive Charter School Law Reform

Pennsylvania's Charter School Law, passed in 1997, established public charter schools with greater flexibility to support innovation in partnership with the traditional public education system. Since then, some charters have strayed from this original purpose by engaging in questionable operational practices and exhibiting poor academic performance. Additionally, charter schools are a major uncontrolled cost-driver for local school districts, resulting in higher property taxes across the state.

The 2021-22 budget proposes comprehensive Charter School Law reform that will save school districts across the commonwealth an estimated **\$229 million** per year. These resources can be reinvested into students and educators, including meeting minimum teacher salary requirements. This package of policy and budget initiatives promotes innovation and choice in the charter sector while ensuring charter schools are providing a high-quality education, accountable for their academic performance and financial management, and meeting the same standards Pennsylvanians expect from traditional public schools.

The budget includes:

- 1. Applying the Special Education Formula to All Charter Schools:** Currently, school districts receive funding for special education students through a three-tiered Special Education Funding formula, with funding increasing as the student's need for special education services increases. Special education tuition payments to charters, however, are calculated based on the outdated assumption that all school districts have a special education population of 16 percent, regardless of the level of services a student's Individualized Education Plan

Budget Themes

outlines. The governor's budget applies the tiered Special Education Funding formula to all charters to better align Special Education Funding with actual costs of providing services to special education students. This was a recommendation from the bipartisan Special Education Funding Commission and will save school districts an estimated **\$99 million** annually.

- 2. Establishing a Statewide Cyber Charter Tuition Rate:** Currently, cyber charter schools in Pennsylvania charge school districts between \$9,170 and \$22,300 per student per year. For comparison, the typical tuition rates an Intermediate Unit charges to provide a comparable online education is around \$5,400 per student per year. The governor's budget establishes a statewide cyber tuition rate of \$9,500 per student per year and will better align tuition with the actual costs of providing an online education. This reform will save school districts an estimated **\$130 million** annually.
- 3. Improving the Redirection Process:** Currently, if a school district does not pay the tuition for the students in its district who attend a charter school or there is a dispute between a school district and a charter on tuition payments, the charter school may petition the Department of Education to reconcile the dispute through the redirection process. This budget proposal provides clarification on the redirection process, including the basis for reported expenditures and the deductions included in the tuition rate calculation, to increase fairness, accountability, and transparency.

Supporting School Choice, While Creating Transparency in Education Tax Credit Programs

The Education Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) are popular programs. The 2021-22 budget lowers the maximum administrative set-aside from 20 percent to 5 percent for scholarship organizations participating in the EITC and OSTC, allowing up to an additional **\$36 million** in scholarships for students without an increase in any taxpayer aid. Scholarship organizations will be required to report more information on the students and families that receive scholarships and their educational outcomes, assuring taxpayers that their tax dollars are directed to students with the greatest need and that participating students receive a high-quality education.

Making College More Affordable

The Nellie Bly Tuition Program for PA State System of Higher Education (PASSHE) Students

To support Pennsylvania's workforce and economic needs, the state must strengthen its commitment to increasing the number of Pennsylvania students who complete a high-quality postsecondary degree or credential. The State Board of Education established a goal for 60 percent of working-age Pennsylvanians to have a postsecondary degree or credential by 2025, with a focus on closing attainment gaps for historically unrepresented populations. The commonwealth must also find ways to incentivize people to learn, work, and stay in Pennsylvania, and make higher education more affordable to students and families.

The 2021-22 budget proposes repurposing **\$199 million** from the Pennsylvania Race Horse Development Trust Fund to support the Nellie Bly Tuition Program. The program will provide financial assistance to targeted full-time students enrolled in the PASSHE system, with priority on students pursuing careers in education. In exchange, the students must agree to stay in Pennsylvania after graduation for the same number of years for which they receive the benefit. This needs-based tuition will fill the gap between the students' financial aid and other financial assistance to cover the tuition, fees, and a portion of the real costs of college, including campus housing, books, supplies, and other expenses. The tuition converts to a loan if the student moves out of the commonwealth during the commitment period and can be deferred while the student pursues further education.

The program will align with the PASSHE Board of Governors accountability framework and student success goals for PASSHE universities. This proposal will help reach the state's credential attainment goal, make higher education more affordable, support on-time graduation and student retention, promote social mobility into the middle class for low-income students, and get students into the workforce with less student loan debt.

Budget Themes

Advancing Pennsylvania's Economic Recovery through Business, Agriculture and Workforce Investments

The COVID-19 pandemic has interrupted the everyday lives of workers and small business owners throughout the commonwealth. Governor Wolf understands that businesses and workers need each other to thrive, and both are the key to economic recovery from the COVID-19 pandemic. In this budget proposal, he is doubling down on his commitment to make Pennsylvania the best place to live, work, and do business. Pennsylvania's economic vitality is dependent on swift and targeted action to get Pennsylvanians back to work quickly into well-paying jobs in sectors that will lead the economy back to prosperity.

In 2019, the governor signed an executive order establishing the Keystone Economic Development and Workforce Command Center, which researched barriers preventing job-seeking Pennsylvanians from connecting to workplaces needing employees. The 2021-22 budget seeks to implement programs and enact meaningful change that will help workers overcome these barriers while improving the quality of life for all Pennsylvanians.

Breaking Down Barriers to Employment by Supporting Students and Veterans

The public-private Keystone Economic Development and Workforce Command Center identified five key barriers for employees and employers: transportation, child care, training, licensure, and re-entry from institutional settings. Enacting the recommendations of the Keystone Economic Development and Workforce Command Center will provide opportunity for our younger generations and ensure seamless transitions for our active duty servicemen and women to civilian employment. The Commonwealth of Pennsylvania, through the Pennsylvania Higher Education Assistance Agency, will maximize Pell Grant awards and federal financial aid to make certificates, credentials, and college degrees more affordable. These grants can be stacked with other state grants and financial aid. The commonwealth will continue to build on federal efforts to simplify the FAFSA form.

This budget continues to build on the governor's previous efforts to address the barriers that prevent qualified individuals from securing occupational licensure and employment. Utilizing a grant from the United States Department of Labor, the Department of State will develop and publish reports that identify the licensure challenges that immigrants, veterans, military spouses, and out-of-state workers face in obtaining licensure. Included among these reports will be a military occupation crosswalk that will aid veterans in translating their military education, certifications, training, and skills into professional credentials as they transition from military to civilian employment.

Increasing the Minimum Wage to \$12 per hour, with a path to \$15 per hour

Already in 2021, 20 states increased their minimum wage. Pennsylvania's minimum wage of \$7.25 (\$15,080 per year), has not increased in nearly 12 years and is keeping families living in poverty. While the cost of living for Pennsylvanians is increasing, the minimum wage has remained stagnant, limiting the purchasing power of low-wage workers trying to afford necessities.

The 2021-22 budget proposes increasing the state minimum wage to \$12 per hour effective July 1, 2021, with annual increases of \$0.50 until the minimum wage reaches \$15 per hour on July 1, 2027. By increasing the minimum wage, low-income workers will have the ability to better afford basic needs — housing, groceries, transportation, and child care — and will take a step out of poverty and toward self-sufficiency. Raising the minimum wage will also improve productivity and morale for millions of workers, reduce reliance on public benefits, and invest in people providing critical workforce needs, including early childhood educators and direct care workers caring for the most vulnerable Pennsylvanians.

Investing in New Manufacturing and Expanding Critical Recovery Support

This budget continues to build on three fundamental building blocks: education, workforce development, and economic development. It cements Governor Wolf's dedication to creating the friendliest entrepreneurial environment in the country. This is achieved by focusing on fostering safe and vibrant communities to attract and retain talent, who in turn create businesses or aid innovative companies to grow and expand.

Budget Themes

Manufacturing is critical to the health and prosperity of Pennsylvania's economy. As such, Pennsylvania can emerge stronger than ever from the COVID-19 pandemic by expanding critical support services to the commonwealth's small- and medium-sized manufacturers. Pennsylvania is at a pivotal point in its history with once-in-a-lifetime economic opportunities that are well within our reach. The commonwealth is home to some of the fastest growing technologies that are changing the way manufacturing processes increase competitiveness in the global economy. The Department of Community and Economic Development provides administrative support to a public-private Manufacturing Advisory Council to help build and implement a statewide strategy and provide guidance for the significant service provider network to grow this vital sector.

The seven Industrial Resource Centers (IRCs) located in a vast network throughout Pennsylvania have historically provided these critical services to the small- and medium-sized manufacturers that make up more than 92 percent of the commonwealth's manufacturing base. The IRC network helps manufacturers respond to changing markets and new technology, and remain competitive, which is more important than ever during and after the COVID-19 pandemic. The IRC network will receive a **\$1.5 million** increase, to be awarded competitively among IRCs that propose to partner with institutions of higher education and deliver innovative services to new and existing companies in areas such as talent pipeline, robotics utilization, 3-D printing, and advanced manufacturing techniques.

The Partnerships for Regional Economic Performance (PREP) Network, Small Business Development Centers, Local Development Districts, and Industrial Development Organizations will receive a **\$1.5 million** increase, to be awarded competitively among the partners, requiring regions to be creative and innovative in their applications for service and to partner with institutions of higher education. This will drive greater impacts to accelerator participation, entrepreneurial internships, decreased student outmigration, and business incubation as well as to continue to provide critical services to assist Pennsylvania's businesses in their economic recovery.

Investing in Pennsylvania's Business Community Through Job Training

The Workforce and Economic Development Network of Pennsylvania (WEDnetPA), Pennsylvania's premier incumbent workforce training program, provides vital support to help companies assess their training needs and develop training plans. Companies will continue to receive assistance in obtaining a level of training – for both essential skills and technical skills – among employees that they otherwise could not have reached. WEDnetPA has helped more than 21,000 companies train more than 1.2 million Pennsylvania workers since its inception in 1999.

Improving Food Security while Supporting Agriculture

An additional investment of **\$1 million** in the Pennsylvania Agricultural Surplus System (PASS) will further address food insecurity in Pennsylvania and ensure more Pennsylvanians have access to healthy meals for their families. Through PASS, the Department of Agriculture provides funding to cover the costs associated with harvesting, processing, packaging, and transporting surplus products including fruits, vegetables, eggs, dairy, meat, and grains in order to donate those items to the charitable food system. Current funding has allowed healthy and nutritious surplus food to be brought into the charitable food system to nourish 2.18 million Pennsylvania households who struggle to put food on the table.

The 2021-22 budget also continues the governor's commitment to agriculture by continuing integral funding for the programs created under the historic 2019 Pennsylvania Farm Bill – a bold, aggressive and necessary investment in agriculture to grow opportunities and resources, remove barriers to entry, and inspire future generations of leaders in the industry.

Ensuring Adequate Support for Military Communities

The 2021-22 budget provides **\$500,000** in additional funding to help prevent base realignment and closure, or BRAC, actions by the federal government from affecting Pennsylvania's military communities. Base closures and the resulting job losses could have a significant impact on Pennsylvania's economy. These installations are often the largest employers in their respective counties and are vital sources of family-sustaining jobs. These installations support 55,000 full-time equivalent jobs, generating \$4 billion in labor income and \$11 billion in total economic output.

Budget Themes

Back to Work PA

COVID-19 has had an unprecedented economic impact across the country. This is just as true in Pennsylvania, which is at a critical juncture where relief for workers, families, small businesses and communities is needed right now. COVID-19 has caused every person to adapt their daily lives to a new normal, facing challenges no one could have imagined. To adapt to these changes, Governor Wolf is proposing a bold and targeted investment into the economy and workforce, to help put Pennsylvania Back to Work.

Restore PA, an ambitious infrastructure improvement plan introduced by Governor Wolf in 2019, was created to propel Pennsylvania into the 21st century. Using the same construct, Restore PA will be refocused to assist workers and business owners most impacted by COVID-related closures. Pennsylvania has an opportunity to provide **\$3 billion** to help workers and businesses to stabilize the economy and recover from the pandemic. With this rapid injection of dollars, Pennsylvania will come out from the COVID-19 pandemic with a more diverse and robust economy, and workers will have new skills and career paths to build up prosperity for generations to come.

Two of the five barriers identified by the Keystone Economic Development and Workforce Command Center are training and child care. This plan looks to direct significant investment into these and other areas that may otherwise prevent residents from having the opportunity to obtain the well-paying jobs they deserve.

COVID-19 has caused major disruptions and layoffs to Pennsylvania's workforce, disproportionately impacting low-wage workers, people of color, people with disabilities, and certain industry sectors. Pennsylvania's economic recovery requires a strategic investment into workforce development that addresses these inequities, supports workers most significantly impacted by the pandemic, and focuses on high-quality well-paying jobs and careers. By targeting investments in skills, through upskilling, reskilling and transferring of skills, Pennsylvania can match workers displaced by the pandemic with opportunities to fill the well-paying positions employers are trying to fill now.

In response to the pandemic, the PA CareerLink® system quickly implemented innovative approaches to service delivery, including offering curbside assistance, virtual career fairs, deploying WIFI hotspots, and expanding WIFI access to local communities. In response to the changing needs of PA CareerLink® customers, the Back to Work PA proposes a statewide investment into workforce services including individualized career coaching and enhanced wrap-around supports to assist customers with addressing barriers to employment. This will also include support for employer adoption of skill-based hiring and inclusive talent recruitment and development strategies to help reach their talent needs.

Registered Apprenticeship is a proven model to connect workers with education and training opportunities that result in family-sustaining wages and a path to the middle class. Pennsylvania will leverage the successful PAsmart initiative to continue building a diverse talent pipeline of Registered Apprentices and expand the Registered Apprenticeship model into non-traditional industries and occupations.

Access to and affordability of child care has been a persistent barrier for employees and job seekers who cannot go to work without having a plan for the care of their children. COVID-19 has made finding and maintaining reliable child care an even more challenging feat. The Back to Work PA framework proposes expanding child care subsidies to allow more Pennsylvania job seekers the assurances necessary to return to work. In addition, funding will be made available for employers seeking to develop or expand on-site child care for current workers and new hires, and for licensed child care facilities offering non-traditional hours.

COVID-19 has caused major disruptions to businesses in the commonwealth. One of these major disruptions is supply chain. Reshoring of critical supply chains needs to happen. With strong national and international competition expected for these opportunities, we must leverage Pennsylvania's strength in manufacturing, workforce and location to compete. This proposal seeks to develop a strong reshoring initiative by prioritizing and recapitalizing existing programs.

Pennsylvania has been a historical leader when it comes to innovation. As shifts in the economy occur, whether through natural technological progression or through economic disruption, Pennsylvania needs to cultivate new ideas and support inspiring entrepreneurs. As individuals impacted by the pandemic look to new opportunities, fostering their innovative ideas into start-up companies will help the economy recover as well. Creating a holistic funding strategy fosters new innovative companies and sees them through every stage, attracting new workers and retaining the students our world-renowned universities develop.

Budget Themes

Communities across the commonwealth are facing unprecedented financial hardships due to severe revenue loss as a result of the pandemic. The commonwealth is expecting a surge of Act 47 distressed municipalities. This will require communities to make difficult decisions surrounding municipal reforms and consolidations, budget cuts, and tax or fee increases. Strategic investments into these communities can provide much-needed relief as they grapple with the long-term economic impacts of the pandemic. There are several existing programs offered by the Department of Community and Economic Development that, with more resources, could help these communities plan for a new tomorrow.

Finally, just as broadband expansion was a tenant of the Restore PA proposal due to its importance prior to the pandemic, COVID-19 disruptions have shown that broadband access is a necessity. Internet access is important for all aspects of life, including health care, education, employment, and operating a small business. Teleworking, telehealth and telelearning may be the new normal and as such, it is vital that the broadband infrastructure, especially in unserved areas of the commonwealth, is built out now. Every citizen deserves an opportunity for economic vitality, and internet access is a fundamental pillar to that opportunity.

Keeping Pennsylvanians Safe through Criminal Justice Reforms

Providing Fair Funding for Police Coverage

Across the commonwealth, municipalities rely on the Pennsylvania State Police (PSP) to provide local police support. This coverage comes at no cost to the municipality, but instead is borne by all taxpayers statewide.

It is essential to find a solution that closes the funding gap caused by the decreasing reliance on Motor License Fund support. To address the inequity, the 2021-22 budget assesses a fair service fee to all benefitting from policing provided by PSP. Rather than a flat fee or a sliding fee based on population, this proposal would be assessed on every municipality in the commonwealth, because services are provided to all, regardless of the level of municipal police coverage. This has never been more evident than during 2020 when extensive PSP resources were deployed to assist statewide, often in areas served by full-time municipal police departments. This fee is predicated on station coverage costs, which are driven by incidents and coverage area, and considers various factors, including population and income. It is further weighted for municipalities benefitting from full- or part-time police services.

Law Enforcement Reform

Building on the passage of Acts 57 and 59 of 2020, it is essential to continue to support efforts to improve law enforcement to make the commonwealth safer for every Pennsylvanian, including community policing improvement and the accreditation of police departments throughout Pennsylvania.

Community policing is one of the key components of 21st Century Policing. Youth-focused programs, such as PSP's Camp Cadet/Explorer programs, support these efforts by introducing young participants between age 10 and 20 in underserved communities to the increasingly diverse criminal justice system workforce, establishing positive relationships with law enforcement personnel. Diversity is a critical aspect of hiring in policing and exhibits to a community the force's commitment to serve its needs with a diverse workforce that understands the unique challenges of the community. Workforces that are reflective of the communities they serve can foster public trust.

Another important component of supporting the modernization of our policing system is to increase the number of law enforcement agencies that are enrolled in and accredited by the Pennsylvania Law Enforcement Accreditation Program, as professionalism increases public trust and safety. Since 2001, over 375 police departments in Pennsylvania have enrolled and 145 have achieved accreditation in the program conducted by the Pennsylvania Chiefs of Police Association. Supporting additional investments in technical assistance will bring more departments on board with the accreditation process.

Bail and Pretrial Reforms

Everyone has a right to a fair trial and not to be held in prison based solely on inability to pay, not because of risk to society. Pennsylvania must implement a best practices model for bail and pretrial services.

Budget Themes

According to Pennsylvania's most recent Justice Reinvestment Initiative (JRI2) report and reports released by the Pennsylvania Interbranch Commission for Gender, Racial and Ethnic Fairness, bail decisions – and particularly the use of monetary cash bail – vary widely county-by-county and disproportionately impact minority defendants. To address this disparity, the report recommended that the Pennsylvania Supreme Court review court rules related to bail determination to encourage greater consistency in bail decisions across the commonwealth.

Research shows that less time spent in jail pretrial lowers the chances of committing another crime. The inability to pay bail leads to increases in the likelihood of conviction, increased guilty pleas, higher average court costs, and longer incarceration sentences. Bail amounts for misdemeanors and felonies can be 10 times higher in some counties compared to others, ranging from a low of \$1,000 to a high of \$10,000 for misdemeanors, and \$5,000 to \$50,000 for felonies. The amount of monetary bail is higher for black individuals than for white individuals – less than half of those with monetary bail are able to post it.

Monetary cash bail reform should not only reduce the disproportionate impact on minorities in the criminal justice system, but also reduce the total number of indigent defendants held in jail pretrial, thereby producing savings for county governments without negatively impacting public safety.

Probation Reform

Probation supervision in Pennsylvania is a complex system. One in 34 adults are under some form of community supervision in Pennsylvania compared to one in 53 nationwide. One-third of prison beds are occupied by persons who violated probation/parole. Research shows that supervising people who are at low risk of reoffending actually increases their likelihood of recidivism.

There are many benefits of a strong probation system that promotes proper services for individuals while providing accountability as necessary for a limited period of time. That balance has been difficult to achieve. The commonwealth must explore reform opportunities to ensure that the time on supervision is limited to the level of risk to the community. Reform options should include changes to the total length of supervision, opportunities to reduce the time on supervision with incentives and time credits, and limitations on technical violation revocations.

Comprehensive Clean Slate Legislation

Clean Slate in Pennsylvania has been very successful to date. There have been over 36 million cases sealed since the program began. However, this is only the first step in establishing a much more comprehensive clean slate law in the commonwealth. The opportunity for persons convicted of greater offenses, including felony convictions, must be considered in order to truly progress in eliminating the stigma of a felony conviction. Lastly, there should be an opportunity to reduce the waiting periods for lesser offenses.

Medical Release Reform

Pennsylvania must expand the eligibility for elderly and infirmed individuals to be released from prison to continue care in appropriate long-term care facilities or domiciliary care.

While many states are seeing a reduction in prison populations, the number of inmates nationwide over the age of 55 has increased by 500 percent. Moreover, incarceration can aggravate the effects of aging due to histories of substance use and inadequate preventative health care. The Department of Criminal Justice houses more than 9,000 inmates who are over the age of 50, representing approximately 24 percent of the entire population. Housing an aging inmate in skilled cared units at State Correctional Institutions Waymart, Muncy, and Laurel Highlands costs four times more than an inmate in general population.

Research supports that individuals age out of crime, meaning the release of elderly inmates poses the lowest risk to the community. Additionally, releasing this population enables federal dollars to contribute to the cost of care, easing the burden to Pennsylvania taxpayers. The continued incarceration of this population, many of whom have already served decades behind bars, is expensive and unnecessary for justice to be served.

Finally, during the recent COVID-19 pandemic, it became clear that the Department of Criminal Justice must re-evaluate its population capacity. Despite the significant population reduction of over 6,000 inmates since March, this vulnerable elderly population continues to be at much higher risk of complications or death from COVID-19. Releasing these individuals through medical parole would place them in a safer environment, enable the department to depopulate and manage COVID-19 better, pose little to no risk to the community, and save taxpayers millions of dollars.

Budget Themes

Indigent Defense

All persons deserve adequate legal representation regardless of ability to pay, supported by research such as the 2007 Joint State Government Commission (JSGC) report which stated that for Pennsylvania “to perform its duties under the U.S. Constitution and as a civilized society by finally addressing the deficiencies that undermine its indigent criminal defense system by reforming the system to comply with national standards.”

The Pennsylvania Interbranch Commission for Gender, Racial and Ethnic Fairness (the Commission) has played an integral role in the effort to address the inadequacies of the commonwealth’s criminal indigent defense system. The Commission concluded that the system’s failure to meet the commonwealth’s constitutional mandate to provide fair and adequate legal representation to indigent defendants continues unabated to this day. Further, the Commission found that the acute underfunding of these services has not only created significant fiscal problems for the counties, but has also cost the state hundreds of thousands of dollars each year to incarcerate and retry defendants, due to the inability of their indigent defense counsel to represent them effectively.

The Commission concluded that a modified version of the reforms recommended in the JSGC report would provide for a more effective system and would save the state and counties many of the costs they currently expend to try, incarcerate, and retry indigent defendants. The reforms proposed by the Commission include the creation of a statewide Office of Indigent Defense, which would be tasked with providing the following:

1. Defense counsel services to indigent defendants against whom the death penalty has been sought;
2. General appellate and post-conviction representation for adult indigent criminal defendants;
3. Juvenile delinquency defense legal support services to counties; and
4. Training, research, and data collection services to county indigent defense offices.

Compensation for Wrongfully Convicted Individuals

Nationally, wrongfully convicted people spend an average of nine years behind bars before proving their innocence, while Pennsylvania exonerees spend an average of 14 years in prison. The negative impacts of wrongful conviction do not end with exoneration – societal punishment can linger long after innocence has been proven. Exonerees often have little access to money, housing, transportation, health services, or insurance, in addition to experiencing years away from family, friends, and the opportunity to build a career.

In addition, innocent African Americans are about seven times more likely to be convicted than innocent white people, according to a study by the National Registry of Exonerations. States have a responsibility to restore the lives of the wrongfully convicted to the best of their abilities. Pennsylvania is one of just 15 states that provides no financial justice to victims of wrongful convictions. Pennsylvania should join 35 other states in providing at least \$50,000 per year of wrongful incarceration.

Protecting the Most Vulnerable

In July 2019, Governor Wolf signed an executive order calling for a thorough review of Pennsylvania’s programs serving vulnerable populations. The executive order established the Council on Reform, which delivered a list of recommendations to the governor on November 1, 2019. Several of the Council on Reform’s recommendations have already been acted upon, and other initiatives are in progress. The 2021-22 budget further supports the council’s recommendations, helping to ensure all Pennsylvanians are treated with the care and dignity they deserve.

Legal Services for Vulnerable Populations

Additional funding of **\$1 million** will be provided to expand the legal services program that provides assistance to low-income individuals and families who are unable to afford necessary legal services from the private sector. Such services include emergency protective services for victims of abuse without consideration of income and consultation, advice, assessment, negotiation, and representation for clients under 125 percent of the federal poverty level.

Budget Themes

Direct Care Worker Comprehensive Training

A new investment will establish training to support direct care workers and those receiving long-term services and supports, as recommended by the Council on Reform. According to the National Association for States United for Aging and Disabilities, the growing use of home and community-based services in lieu of institutional services, as well as the growth of the aging population, has increased demand for direct care workers. To support the growing population of individuals becoming eligible for long-term care services, the number of individuals performing this work needs to increase. One strategy to address the direct care worker crisis is through a standardized core training and credentialing system for direct care workers in the Participant Directed Model, which will provide career pathways throughout the continuum of long-term services and supports.

Supporting Vulnerable Populations through Home and Community-Based Services and Reducing Waiting Lists

Continuing on the commitment to serve individuals in the community, **\$1.25 million** is proposed for 20 Community Hospital Integration Projects Program (CHIPP) discharges to reduce the state hospital populations. The program is targeted for individuals ready for discharge but for whom community resources or programs are not available to support a successful transition to the community. Through the CHIPP, the mental health programs have been able to enhance their systems and develop additional community-based services which are intended to divert individuals from going back to a state hospital.

The 2021-22 budget proposes to move 732 individuals with an intellectual disability and/or autism from the emergency waitlist into the Community Living Waiver and 100 individuals into the Consolidated Waiver. This investment will provide community services to people with unanticipated emergencies, people transferring from private intermediate care facilities, or transferring from state hospitals. The number of emergencies and need for out-of-home placement is likely to increase due to the cumulative effects of the COVID-19 pandemic. Without waiting list capacity to address these emergencies, institutional placements will increase. Additionally, as recommended by the Council on Reform, this initiative will include moving children with complex medical needs into the Community Living and Consolidated Waivers to support their transition from congregate care settings, ensuring they have an opportunity to live and grow up with their families in their own home.

The 2021-22 budget will also fund a new outcome-based incentive to the Consolidated Waiver to encourage expansion of new models of independent living, limit growth of 24-hour residential services, and reduce overall costs of residential services. Supporting the new incentive payments will drive **\$828,000** in cost savings in the 2021-22 budget by reducing residential services and will assist the commonwealth in achieving the policy goal of increased home and community-based services.

Secure Housing and Supports to Promote Family Stability and Reunification

According to a report published by the United States Health and Human Services' Children's Bureau, data consistently show that inadequate housing is a precipitating factor in at least 10 percent of foster care cases, contributing to tens of thousands of foster care placements annually across the country. In addition to being a factor in removals, homelessness and housing instability can also delay reunification, preventing the achievement of timely permanency, forcing children to remain in care for longer periods of time, and negatively impacting their health and educational outcomes. The 2021-22 budget proposes **\$1 million** to reduce the number of children and youth in out-of-home placements triggered by homelessness, housing instability, or inadequate housing. The new funding will implement trauma-informed, multi-disciplinary interventions among county children and youth offices, community-based organizations, and housing experts to stabilize families' housing needs while connecting them to supports that will help sustain self-sufficiency.

Increasing Local Capacity to Fight COVID-19

The ten county and municipal health departments (CMHDs) in Pennsylvania are the main providers of public health services to 42 percent of the commonwealth's population. Level funding of the appropriation and increasing costs for the CMHDs in the fight against COVID-19 have combined to put budgetary pressure on every local health department. The 2021-22 budget includes **\$8.3 million** to achieve the maximum per capita grant for the existing ten CMHDs allowable by statute. This investment will also support the establishment of the Delaware County Health Department in January 2022. This critical investment in local public health infrastructure is more important now than ever as Pennsylvania unites to fight against COVID-19.

Budget Themes

Protecting our Environment by Investing in Workers, Communities and a Clean Future

In 2019, Governor Wolf announced that Pennsylvania would join the Regional Greenhouse Gas Initiative (RGGI), a market-based collaboration among nine Northeast and Mid-Atlantic states to reduce greenhouse gas emissions and combat climate change, while generating economic growth. As we progress toward participation in the program beginning in 2022, we can expect several hundred million dollars to flow to Pennsylvania. Pennsylvania is well-positioned to make important investments with these proceeds both to assist in the transition to a new energy economy and to help stimulate the economy. Pennsylvania's energy landscape has changed rapidly over the past decade due to shifts in market demand, and all forecasts anticipate that these shifts will continue. As such, RGGI revenues present an opportunity to support communities and employees impacted by the energy transition by providing crucial resources, while making other targeted investments in a diversified energy portfolio, environmental justice communities, and support for large manufacturers and other energy intensive industries.

Governor Wolf is calling for a portion of RGGI proceeds to be deposited into a newly created Energy Communities Trust Fund to provide direct support to dislocated workers and communities experiencing impacts from the closure of existing power plants and the loss of jobs and economic activities. A trust fund board would be established to determine specifically how the fund would be invested to benefit these energy communities.

In addition to investments into energy communities for ensuring a just transition, funds would also be dedicated to make immediate and targeted investments in environmental justice communities, to minimize and correct disproportionate environmental impacts, empower communities and foster economic opportunities. These communities have experienced a higher burden of historical impacts from environmental pollution due to decisions that allowed polluting industries to concentrate in areas where minorities or lower-income persons live. RGGI funds will be used to make investments in environmental clean up, water and air quality improvement, recreation and general economic development projects within these environmental justice communities.

Governor Wolf is also proposing new investment in greenhouse gas abatement, energy efficiency and clean and renewable energy programs that help to reduce air pollution in Pennsylvania. Vital funding for key advancements like new research and projects to develop Carbon Capture Utilization and Storage, or much needed abandoned oil and gas well plugging would become available. Investments in clean and renewable energy, including but not limited to biomass, geothermal, hydropower, solar and wind will help to drive in-state investment and job creation while generating electricity.

Finally, proceeds will be dedicated to helping the vital contributors to Pennsylvania's economy in the industrial and commercial sectors in Pennsylvania to reduce their greenhouse gas emissions through investments such as process electrification, fuel switching, combined heat and power, and energy efficiency projects. This proposed investment strategy ensures that we continue to support communities and businesses that have helped create Pennsylvania's rich energy history, even as we do our part to address climate change, the greatest environmental threat facing our world.

Budget Themes

Repairing and Improving Our Infrastructure

All Pennsylvanians should live in communities with access to clean water, safe schools, connected homes and businesses, and family-sustaining jobs. During the last five years, more than 20,000 miles of roadway and nearly 2,000 bridges in Pennsylvania have been repaired and improved, with investments totaling approximately \$10 billion. However, much more work needs to be done to help communities cope with Pennsylvania's aging infrastructure, and the proposals in his 2021-22 budget make key investments that will improve the quality of life for all Pennsylvanians.

The Redevelopment Assistance Capital Program (RACP) is a commonwealth grant program for the acquisition and construction of regional economic, cultural, civic, recreational, and historic improvement projects. RACP projects have a regional or multi-jurisdictional impact and generate substantial increases or maintain current levels of employment, tax revenues, or other measures of economic activity. Economic prosperity in the 21st century brings new infrastructure needs, including build out of broadband infrastructure to allow access for every Pennsylvanian in every corner of the commonwealth. As such, this budget proposes expansion of RACP to allow for broadband build out in unserved or underserved areas of the commonwealth.

Fixing Toxic School Buildings

The governor proposes an expansion of RACP-eligible projects by **\$1 billion** in the Capital Budget Itemization Act to include grant availability for lead and asbestos remediation projects, with the inclusion of schools as eligible grantees.

Making the Tax System More Equitable

The 2021-22 budget proposes to improve the fairness and equity of Pennsylvania's tax system. It will close the Delaware loophole, make the commonwealth more competitive with surrounding states and improve the business climate by lowering the Corporate Net Income Tax (CNIT) and instituting combined reporting. The budget proposes a reduction in the CNIT rate from 9.99 to 8.99 percent on January 1, 2022, then incremental rate reductions to 5.99 percent by 2026.

The budget advances the governor's goal to make the Personal Income Tax (PIT) more fair and equitable. Under this proposal, the special tax forgiveness credit will be expanded and many families will have their taxes reduced or eliminated. Exemption levels will be increased to \$15,000 for single filers and \$30,000 for married filers, with a \$10,000 allowance for each dependent. For example, a family of four (married couple, two dependents) making \$50,000 or less will pay no tax. The new PIT rate will be 4.49 percent effective July 1, 2021. The changes will reduce the burden on those with less ability to pay and make the overall tax system more progressive.

General Fund Financial Statement

(Dollar Amounts in Thousands)

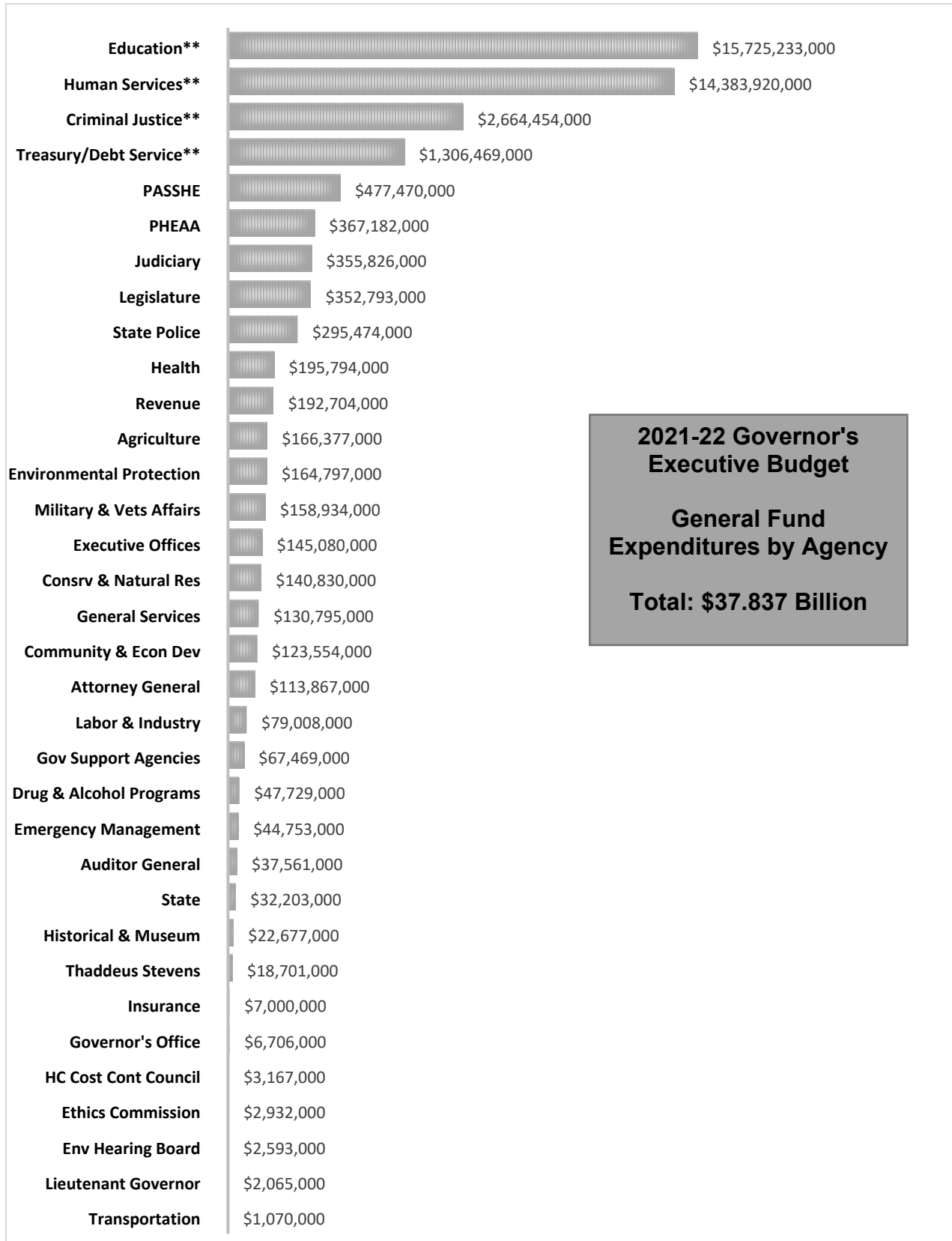
	2019-20 Actual	2020-21 Available	2021-22 Budget
Beginning Balance	\$ -	\$ -2,734,070	\$ -233,422
Adjustment to Beginning Balance	30,373	-	-
Adjusted Beginning Balance	\$ 30,373	\$ -2,734,070	\$ -233,422
Revenue:			
Revenue Receipts	\$ 32,275,785	\$ 37,490,200	\$ 40,085,800
Refunds	-1,150,000	-1,295,000	-1,724,000
Total Revenue	\$ 31,125,785	\$ 36,195,200	\$ 38,361,800
Prior Year Lapses	200,000	220,000	100,000
Funds Available	\$ 31,356,158	\$ 33,681,130	\$ 38,228,378
Expenditures:			
Appropriations	\$ 35,219,623	\$ 36,248,063	\$ 40,207,121
Supplemental Appropriations	-	903,416	-
Less Federal COVID Funds:			
Enhanced Medical Assistance Percentage	-1,129,395	-1,634,889	-2,369,934
COVID-19 Response Restricted Account	-	-1,467,504	-
Current Year Lapses	-	-134,534	-
Total Expenditures	\$ 34,090,228	\$ 33,914,552	\$ 37,837,187
Preliminary Balance	\$ -2,734,070	\$ -233,422	\$ 391,191
Transfer to Budget Stabilization Reserve Fund	-	-	-97,798
Ending Balance	\$ -2,734,070	\$ -233,422	\$ 293,393

General Fund Revenue Sources

(Dollar Amounts in Thousands)

	2019-20 Actual	2020-21 Estimated	2021-22 Estimated
Personal Income Tax	\$ 12,835.0	\$ 15,571.8	\$ 18,382.6
Sales and Use Tax	10,817.8	11,980.7	12,501.3
Corporate Net Income Tax	2,826.9	3,569.7	3,432.1
Gross Receipts Tax	1,104.3	1,002.7	992.6
Cigarette Tax	924.3	901.4	842.3
Other Taxes	3,102.6	3,295.2	3,268.9
Non-Tax Revenues	664.9	1,168.7	666.0
Total Receipts	\$ 32,275.8	\$ 37,490.2	\$ 40,085.8
Difference from prior year	\$ -2,582.1	\$ 5,214.4	\$ 2,595.6
Percentage difference	-8.0%	13.9%	6.5%

General Fund Expenditures by Agency



Motor License Fund

Income and Outgo



Liquid Fuels Tax \$1,863

Licenses and Fees \$1,031

Other Nonrestricted \$12

Income

(Dollar Amounts in Millions)

TOTAL INCOME	\$2,905.5
Beginning Balance	2.7
TOTAL	\$2,908.2

Outgo

(Dollar Amounts in Millions)

TOTAL OUTGO	\$2,891.2
Ending Balance	17.0
TOTAL	\$2,908.2



Highways & Bridges \$1,349

State Police \$673

Local Subsidy \$328

Licensing & Safety \$252

Other \$235

Debt Service \$54

Economic Outlook

The Pennsylvania [Department of Revenue](#) and the [Office of the Budget](#) utilize economic forecast data supplied by [IHS Markit](#) and [Moody's Analytics](#) in constructing the official tax revenue estimates and forecasts. Analysis and discussion throughout this section are based upon data from each source in addition to further analysis from the Department of Revenue and the Office of the Budget.

U.S. Recent Trends and Current Conditions

In 2021, projections have been revised from 3.1 percent to 4.3 percent for real GDP growth based upon multiple developments. These developments include a likely stimulus and better-than-expected news on vaccines. GDP is expected to transition from recovery to expansion in the third quarter of 2021 and the economy is expected to regain full employment in mid-2023, both of which are earlier than in November's forecast.

Core PCE inflation is projected at or slightly below the Fed's long-term 2 percent objective through 2026. However, under its revamped operating strategy, the Fed will tolerate inflation moderately above 2 percent over the second half of IHS's 10-year forecast horizon.

The Forecast

Implicit in IHS Markit's base forecast of 5.6 percent GDP growth in the fourth quarter and 2.9 percent growth in the first quarter is a temporary pause in the broad recovery in November and December, some of which is accounted for by surging new COVID-19 infections and the re-implementation of containment efforts in several states to slow its spread. Monthly GDP is expected to be roughly flat over November and December, but then resume rising in the first quarter, as assumed fiscal stimulus bolsters spending and as new COVID-19 infections and containment efforts are assumed to peak and begin to wane.

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 in 2021. Table 2 notes that over the next two years there is a 50 percent probability of GDP growth, consumer spending bouncing back, and business fixed investment recovering. Table 2 also provides narrative for each economic indicator.

Chart 1
REAL GROSS DOMESTIC PRODUCT
Annual Growth

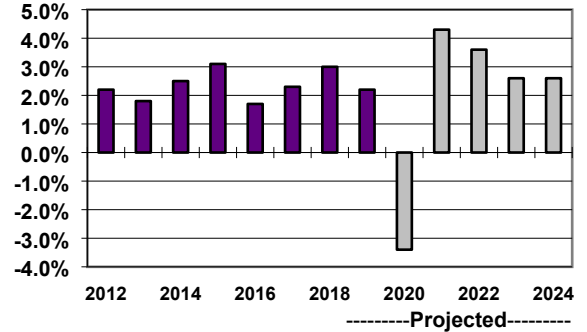


Chart 2
FEDERAL FUNDS RATE

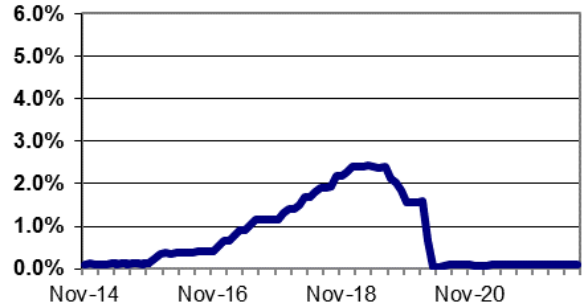


Table 1
Forecast Change in
Key U.S. Economic Indicators
Annual Percentage Growth

Indicator	2019	2020p	2021p	2022p
Nominal GDP	4.0	-2.3	6.1	5.5
Real GDP	2.2	-3.4	4.3	3.6
Total Consumption	2.4	-3.7	5.2	3.8
Corporate Profits (After Tax)	1.8	-5.3	-1.2	6.3
Unemployment Rate (Rate)	3.7	8.1	5.9	4.6
CPI	1.8	1.2	2.1	2.5
Federal Funds (Rate)	2.16	0.38	0.10	0.09

*Assumptions in this chart, as well as other assumptions, are incorporated in the 2021-22 fiscal year revenue estimates
p = projected

Economic Outlook

Table 2
U.S. Macro Forecast Projections from IHS Global Insight
December 2020

Baseline Forecast (50 percent Probability)	
GDP Growth	Real GDP contracts 3.4 percent in 2020 as growth in the fourth quarter slows to a 5.6 percent annual rate. Growth rebounds 4.3 percent in 2021 and 3.6 percent in 2022.
Consumer Spending	Spending falls 3.7 percent in 2020 before bouncing back 5.2 percent in 2021.
Business Fixed Investment	Falls 4.6 percent in 2020. Recovers 4.1 percent in 2021 and grows 5.3 percent in 2022.
Housing	Housing starts grow to 1.37 million in 2020 and rise further to 1.39 million in 2021 before slipping to 1.31 million in 2022.
Exports	Fall 13.1 percent in 2020 before rebounding 9.4 percent in 2021 and 9.3 percent in 2022.
Fiscal Policy	New stimulus assumed in first half of 2021.
Monetary Policy	Fed keeps the federal funds rate at the zero bound through late 2026.
Credit Conditions	Tighten slightly in Q1 2021, then gradually ease.
Consumer Confidence	Stagnates through first quarter of 2021 before rising strongly starting in the second half and topping out in 2023 beneath prior peak.
Oil Prices (Dollars/barrel)	Brent crude oil averages \$41 in 2020, \$47 in 2021, and \$56 in 2022.
Stock Markets	The S&P 500 (end-of-period) rises 6.2 percent in 2020, 18.6 percent in 2021, and 2.9 percent in 2022.
Inflation (CPI)	Core Personal Consumption (PCE) price inflation is 1.4 percent in 2020, 1.7 percent in 2021, and 1.9 percent in 2022.
Foreign Growth	Eurozone GDP rises 3.7 percent in 2021 after a 7.4 percent drop in 2020.
U.S. Dollar	The real dollar depreciates from Q3 2020 through 2023 Q1 and gradually rises thereafter.

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.

The Marcellus shale natural gas deposit is a long-term asset for the state and region, although drilling activity has slowed due to low prices for natural gas. The buildout of infrastructure to transport the gas to market continues, with construction of pipelines, compressing stations and processing facilities continuing to benefit Pennsylvania. Development of natural gas continues to be a factor for Pennsylvania's economic outlook. Direct employment in natural resources and mining is small relative to the total jobs in the state but other industries, such as construction, transportation, and professional services have benefited from the natural gas industry. Longer-term, Pennsylvania's competitiveness in manufacturing should be enhanced by the decreased costs of energy and petrochemical feedstocks coming from beneath the state.

Portions of the state, especially the Pittsburgh area, have become magnets for high-tech jobs such as software development and robotics. Pittsburgh has continued to build on its reputation as one of the nation's leading cities for startup businesses, in part due to the presence of its universities and the graduates they produce.

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. Discussions of "high-tech" sectors often overlook healthcare but should not do so. The outbreak of the pandemic requires cutting-edge research into potential treatments and vaccines.

Economic Outlook

As with everywhere else, Pennsylvania's economic growth over the next few years depends greatly on progress in identifying a vaccine or effective treatment for COVID-19, as that is key to a full reopening of the global economy. The leisure and hospitality sector may take several years to fully recover as travelers gradually return to the roadways and air. Healthcare services should recover quickly from the early impact of the pandemic, and growth is likely to return to pre-COVID-19 levels. Real gross state product will grow by an annual average of 2.7 percent per year from 2020 to 2025, slightly below the national rate of 2.9 percent. Personal income will rise by 2.6 percent, compared with 3.1 percent for the nation.

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

Table 3
Key Economic Indicators for Pennsylvania and the United States

PENNSYLVANIA: Key Economic Indicators	2018	2019	2020	2021	2022	2023
Real Gross State Product (in millions, 2012 dollars)	708,857	726,166	698,432	721,729	738,276	753,289
Real Gross State Product (percentage change)	1.9%	2.4%	-3.8%	3.3%	2.3%	2.0%
Total Employment (in thousands)	6,009.8	6,065.3	5,630.1	5,852.1	6,010.8	6,071.7
Total Employment (percentage change)	1.2%	0.9%	-7.2%	3.9%	2.7%	1.0%
Manufacturing Employment (in thousands)	570.9	575.0	543.5	547.1	555.8	562.2
Nonmanufacturing Employment (in thousands)	5,439	5,490	5,087	5,305	5,455	5,509
Population (in thousands)	12,800	12,802	12,799	12,797	12,803	12,813
Population (percentage change)	0.1%	0.0%	-0.0%	-0.0%	0.0%	0.1%
Unemployment Rate (percentage)	4.3%	4.4%	9.3%	6.1%	5.2%	4.8%
Personal Income (percentage change)	5.2%	3.6%	6.6%	-2.2%	3.2%	4.1%
U.S. ECONOMY						
Real Gross Domestic Product (percentage change)	3.0%	2.2%	-3.6%	3.0%	2.6%	2.5%
Employment (percentage change)	1.6%	1.3%	-5.8%	3.4%	2.6%	1.4%

Copyright 2020 IHS Markit, Inc.



BUDGET.PA.GOV