

BUDGET SECRETARY OUTLINES 2017-18 EXECUTIVE BUDGET

By Mike Howells, Pennsylvania Legislative Services | February 7, 2017

Budget Secretary Randy Albright today presented an overview of Gov. Wolf's 2017-18 budget proposal, which he said finds nearly \$2.1 billion in General Fund cuts and savings to avoid broad-based tax increases for Pennsylvanians, while embarking on several "modest" initiatives to benefit education and employment.

Sec. Albright emphasized the administration's initial goals of "jobs that pay, schools that teach, government that works" remain intact for 2017-18, including efforts to restore "deep education cuts," create a more competitive business climate, and expand the Governor's Office of Transformation, Innovation, Management and Efficiency (GO-TIME) initiative.

Addressing the General Fund financial statement, Sec. Albright acknowledged the steep challenges facing the state next year, noting an estimated \$3 billion deficit for 2017-18 absent any executive action. He explained revenue estimates are down significantly below expectations, and the spending side of the budget "is also heading in the wrong direction."

Sec. Albright detailed the various cost drivers contributing to the budget imbalance, as well as steps being taken to mitigate the deficit. Among those he noted were complement controls, including recommending an early retirement initiative program for state employees, various consolidation and coordination improvements, and reducing the state's real estate footprint where possible. Sec. Albright detailed efforts to reduce General Fund spending, in part through the consolidation of tax credit programs under a single block grant, eliminating a \$30 million subsidy to the Pennsylvania University (UPenn) Veterinary Program, which he noted stands as a large outlier among universities in the country receiving direct state funding, and converting \$25 million in institutional assistance grants to a matched program. Also, the governor will recommend requiring a \$25 per capita reimbursement from municipalities that rely solely on the state police for primary coverage, generating \$63 million, reducing human services costs through a consolidation of four state agencies and other efforts, and revising the formula for pupil transportation funding to capitalize on lower fuel costs. Additionally, Sec. Albright said consolidating the investment offices of the State Employee Retirement System (SERS) and Public School Employees Retirement System (PSERS) will save \$3 billion by 2050, while the administration's GO-TIME initiative will set a new goal of \$500 million in savings through 2020.

The various cost-saving measures, Sec. Albright said, will save nearly \$2.1 billion, leaving the administration and lawmakers with nearly a billion dollars to make up. He outlined the governor's proposed revenue enhancements to balance that figure, including a minimum wage increase to \$12 an hour, which is expected to generate \$95 million in net revenue, a lease-leaseback arrangement for the Farm Show complex, generating \$200 million in upfront payments to be repaid over 29 years, a loan from the Workers Compensation Security Fund, and various debt refinancing and debt management efforts. Additionally, Sec. Albright reported the governor will propose a 6.5 percent severance tax, cap net operating losses at 30 percent, institute combined reporting beginning in 2019, expand the coverage of the insurance premiums tax, and close various tax loopholes.

Sec. Albright emphasized the state is not going to end the current fiscal year in balance, and that imbalance will have to be paid for.

On the topic of education, Sec. Albright advised there is a proposed \$8.9 million increase for state system universities, and level funding for state-related and community colleges. \$2 million is proposed for school improvement efforts, and \$2 million for expanded access for school breakfasts will leverage up to \$20 million in federal funds.

Addressing employment initiatives, Sec. Albright said the administration wants to establish a "one stop shop" for business services, establish greater accountability for taxpayer dollars received by companies to create and expand jobs, and further invest in workforce training and career pathways. Additionally, with the minimum wage increase, Sec. Albright commented the administration thinks \$12 is the right rate to catch up to neighboring states, and it will include a cost of living adjustment (COLA) to keep it relevant.

Sec. Albright outlined the newly proposed Manufacturing PA initiative, which would provide \$12 million to partner the Department of Community and Economic Development (DCED) with research institutions, community colleges and other training providers, including \$5 million for customized training initiatives.

Discussing the plan to restructure four human services agencies, Sec. Albright emphasized the goal is to provide better services to end users. He said the new unified department will also save taxpayer dollars, while serving nearly 2,000 additional eligible individuals with intellectual disabilities and autism, expanding child care services for an additional 1,800 children, and continuing to expand home and community-based services.

Speaking to the state's efforts to combat the opioid epidemic, Sec. Albright said the 2017-18 budget builds on the \$20.4 million investment made in 2016-17, with \$10 million to increase access to Naloxone for first responders, \$3.4 million for expanding specialty drug courts, and leveraging federal Cures Act funding.

On the environment, Sec. Albright advised \$15 million is proposed to fund watershed protection activities through the Department of Agriculture, the Department of Environmental Protection and the Department of Conservation and Natural Resources.

On the proposal for an early retirement incentive program, Sec. Albright emphasized the move to increase controls does not constitute a hiring freeze, and said the program is intended to provide added means for agency managers to meet their complement challenges. He added they are trying to target people who are not otherwise planning to retire, and added he does not believe it will add to the stresses on the state's pension system.

Sec. Albright remarked there are "significant pieces" of the proposed cuts and savings measures that will require legislative assistances, including the retirement incentive, Health and Human Services consolidation and the bond plan structuring. He noted some, like the Farm Show lease, do not. He emphasized the proposal was not put together without legislative input, and indicated that is in part why there is reason to believe a severance tax could pass this year.

Addressing the projected revenue increases for the Pennsylvania Liquor Control Board (PLCB), Sec. Albright attributed the bulk to competitive pricing, along with opening new stores and expanded retail markets.

Discussing the loan from the Unemployment Compensation Fund, Sec. Albright remarked the administration calibrated the \$165 million so as not to jeopardize the needs of the fund, which has a balance in excess of \$800 million.

On the state's corporate net income tax rate, Sec. Albright said it is still the second highest in the country, but if the rate can drop to 6.49 percent it becomes much more competitive. He said the problem is that without combined reporting in place, a lot of businesses are able to avoid paying it.

Addressing the issue of municipal pension debt, Sec. Albright said the governor continues to have strong interest in resolving local pension issues, but is not going to be "prescriptive" on that front.

Asked how much of the proposed budget was developed by consulting firm McKinsey & Co., Sec. Albright remarked "we were not proprietary." He said generally speaking their work was one of "validation" and "norm-referencing." For example, he said, it was McKinsey who pointed out how much of an outlier the state's funding to the UPenn Veterinary Program is.

[Click here](#) to view the presentation offered by Sec. Albright.

###