SENATE BILL 1350 PROVIDES REMAINDER OF FY 2020-2021 BUDGET AFTER FIVE-MONTH TEMPORARY BUDGET

On the evening of Nov. 20, the Pennsylvania House and Senate passed SB 1350 (Sen. Patrick Browne, R-Lehigh), providing for the remaining appropriations for FY 2020-2021, and HB 2536, (Rep. Lee James, R-Venango) the corresponding fiscal code bill. Both bills have been signed into law.

During this extraordinarily uncertain economic year, the FY 2020-2021 budget has been completed using a mix of one-time sources of revenue to fill the revenue shortfall caused in large part by the coronavirus pandemic. In May, Gov. Wolf signed into law HB 2387, which provided a temporary budget to fund the commonwealth on a five-month basis until the fiscal impacts of the COVID-19 pandemic would become clearer. The plan totaled $26 billion in spending, with approximately 42% of most line items based on FY 2019-2020 spending levels. Some human services programs, such as children and youth services, were funded for the full year at that time, along with most education lines and food security lines. A limited number of other lines received increases due to increased expenses, such as pensions and debt. Federal allocations were provided for the full year.

The temporary budget provided some continuity to counties over the short-term while the broader impacts of the pandemic and Pennsylvania's disaster response, as well as their impact on the state's revenue collections, continued to take shape.

The remaining seven months of FY 2020-2021 were provided through the supplemental general fund budget included in SB 1350, spending an additional $11 billion to fund programs for the rest of the fiscal year. In total, it amounts to approximately $36.5 billion in state spending for the year, which is about 3.8% more than the FY 2019-2020 spending level. Despite difficult circumstances, the budget does not contain any across-the-board cuts.

Allocations for the federal CARES Act funding were also signed into law in late May. The budget package allocated $2.6 billion of Pennsylvania's $3.9 billion in CARES Act dollars, including $625 million to the 60 counties that did not previously receive direct federal CARES funds to be spent on COVID-related expenses through the County Relief Block Grant program housed in Department of Community and Economic Development (DCED).

The state was left with $1.3 billion in federal CARES funds to appropriate before the end of the calendar year. Senate Bill 1350 directed approximately $1.2 billion of these funds to COVID-19 related expenses for the commonwealth, including department program administration, emergency relief funds, public health and emergency response and other direct relief programs. It is critical to note that these funds are one-time expenses and the federal CARES funds cannot be thought of as sustainable or continuous revenue replacement sources.

While under Act 24 of 2020 counties would have received any CARES funding unexpended by the state as of Dec. 1, now that the remaining funds are appropriated through the state budget, no additional funds will be allocated directly to counties beyond the original $625 million allocated to the County Relief Block Grants. House Bill 2536 clarifies provisions surrounding the remaining federal CARES Act dollars, specifying any funds that are not able to be spent by Dec. 30 be transferred back to the state by Dec. 15 to assist the Department of Corrections in meeting payroll expenses for public safety, health care or other employees substantially engaged in COVID-19 mitigation and response.

Furthermore, the FY 2020-2021 budget utilizes a patchwork of funding from other sources, including the state's Rainy Day fund and approximately $531 million in transfers from about two dozen special funds, including the Worker's Compensation Security Fund, the Recycling Fund, the Judicial Computer System Augmentation Account, three PENNVEST Funds, the Underground Storage Tank Fund and the Medical Marijuana Program Fund, plus a number of smaller-amount transfers, including $5 million from the State Agricultural Conservation Easement Fund. Importantly, most of these funds will not be available in future budget years and may have impacts on future budget cycles and county funding lines. The use of these special funds, coupled with a revenue shortfall that was not as gloomy as originally predicted, allowed for most lines to be flat funded at FY 2019-2020 levels, although there are increases in some mandatory expenses and some cuts as well.

Overall, county programs have been mostly flat funded at the prior year's levels. Notably, the Department of Human Services received an increase of nearly $1.1 billion over the prior fiscal year. This occurs in large part due to the unexpected news that the federal government will continue its enhanced matching payments for the Medicaid program, Federal Medical Assistance Percentage (FMAP). It will provide almost $2.1 billion more to Pennsylvania's Medical Assistance Program than had been initially anticipated.

To address the top county priority for 2020, the mental health community base received level funding at the FY 2019-2020 levels. However, the program will see an increase due to $21.1 million in federal funding in FY 2020-2021. CARES funding has been included as part of the Medical Assistance mental health base funds, which is temporary and unsustainable beyond the COVID-19 emergency. Although there is an increase in the federal share with CARES Medical Assistance funds, administrative procedures for counties to receive the funds may prevent all the funding from being allocated. In addition, one-time CARES funding for mental health crisis counseling is included in this budget, which may be used solely for response to the coronavirus pandemic. These factors may distort the perception that there is an increase in funding or that it will be sustainable in future budgets.

A few other notable areas of the budget include Medical Assistance where counties see an increase, as well as community and economic development, such as Workforce Innovation and Opportunity Act and Keystone Communities, thanks to a one-time infusion of CARES Act funds.

The child welfare budget for FY 2020-2021 includes a decrease of $60 million in state child welfare funds from the FY 2019-2020 budget, but allocates a $79 million increase in federal funds, and $18 million in federal COVID funds. Considering all related funds in this category, child welfare still sees a loss of 3.42%, but there are gains in other areas with the addition of one-time supplemental COVID federal funds.

Transportation funding in this budget remains relatively steady for counties, though there was a decrease in revenues from the gas tax due to limited travel during the COVID-19 pandemic.

Farmland preservation funding also remained relatively stable due to a proposed increase pre-pandemic, standing at $40 million spending authority. In February, the state board set the threshold at $43 million for the calendar year and then adjusted with COVID-19 mitigation efforts which were restored during the summer, but ultimately $5 million was again transferred due to the Environmental Steward Fund transfers during the fall budget negotiations.

One caution for counties to keep in mind as emergency response and related increased expenses and economic difficulty continue is to remain prudent in monitoring expenditures in the months to come. Several factors collide to make the future budget year challenging as well: continued, and possibly worsening, COVID-19 public health conditions, uncertain future revenue collections from the related economic downturn and the fact that the FY 2020-2021 budget was balanced using a combination of one-time funds.

CCAP emphasizes the state-county partnership in service delivery, recognizing that a mutual understanding of that partnership can yield effective and responsible delivery of constituent services, especially in what promise to be trying days ahead. CCAP has assembled a number of budget resources on its Budget News web page.