GOVERNOR RELEASES FY 2017-2018 BUDGET PROPOSAL – On Tuesday, Feb. 7, Gov. Wolf delivered his third budget address, announcing his $32.3 billion fiscal proposal for FY 2017-2018 before a joint session of the House and Senate.

The proposal represents an increase of about $571 million, or 1.8 percent, over FY 2016-2017. Responding to an anticipated $3 billion structural deficit, the governor recommended approximately $2 billion in cost-saving measures and other cuts, and about $1 billion in new revenues.

The proposed revenues would come from a variety of sources, such as closing loopholes in the insurance premiums tax, establishing uniform Net Operating Loss provisions, removing certain sales tax exemptions (specialty software and computer services, aircraft maintenance and repair and certain business storage), and implementing combined reporting in conjunction with corporate net income tax rate reductions. In addition, the FY 2017-2018 budget proposal assumes the implementation of iLottery, an online lottery platform.

The governor again proposed a 6.5 percent shale gas severance tax, but in a way which would keep the current impact fee under Act 13 of 2012 in place and allow natural gas companies to use the amount paid in impact fees as a credit against the severance tax. One of CCAP's top priorities for 2016 remains maintenance of the shale gas impact fee, complete and as it is now, with the ability to grow as the industry grows and with the same distribution to impacted local governments as well as the Legacy Fund distributions to all counties and to conservation districts and state agencies.

The governor's plan also includes several recommendations for consolidation of state agencies and other cost-savings initiatives. Of note for counties, Gov. Wolf is calling for restructuring the existing departments of Aging, Health, Human Services and Drug and Alcohol Programs into a single Health and Human Services agency, projected to save more than $90 million through service coordination, reduced duplication and streamlined programming. For a second year, the consolidation of the Department of Corrections and the Board of Probation and Parole is also recommended.

Cost savings in the FY 2017-2018 proposal would be expected to come from across agencies, and include measures such as regionalization of the County Assistance Offices, a lease-back arrangement for the Farm Show Complex, and deletion of many small special-purpose line items. The proposal includes implementation of reforms under Justice Reinvestment Initiative II, estimated to save $108 million over five years. In addition, a proposed $25 per capita fee would be imposed on municipalities without local police coverage who instead rely on the State Police. Elsewhere, the state's economic development tax credits would be converted to a block grant, while making businesses more accountable for creation and expansion of jobs.

From the county perspective, given the current budget environment, the governor's proposal represents a good starting point, with generally level funding across line items, particularly in human services. The proposal does include several positive elements, such as a $26.2 million waiting list initiative to move individuals with intellectual disabilities and autism into services. In addition, the governor's budget plan addresses the opioid epidemic, another county priority, with $10 million in federal funds to expand access to naloxone for first responders, as well as $3.4 million in federal funds to expand drug courts. Further, a $45 million bond initiative ($15 million dollars annually across three years) has been requested in order to fund watershed protection activities.

Still, the state's fiscal condition works against needed growth in funding for the broad spectrum of county human services programs. And so as the process goes forward, counties' top priority for 2017 remains advocacy for human services funding, recognizing that county capacity to meet service needs has been compromised by a steady decrease in funding over more than a decade, at the same time that mandates and service needs continue to increase.

Counties will also be evaluating the impacts of the proposal to create a single Department of Health and Human Services, and other cost-savings measures, since many county human services programs fall under the jurisdiction of these departments. Counties' experience with the human services block grant serves as evidence of the potential for functional consolidation, but also as a reminder that time and care must be taken to avoid unintended outcomes.

CCAP has assembled a number of budget resources on its Budget News and Updates web page, including a spreadsheet with the governor's proposed funding levels for county line items. It also includes links to budget resources from the governor and legislative caucuses. Highlights on line items of interest to counties follow.

Agriculture and the Environment. The governor proposed level funding for the State Food Purchase Program at $19.2 million, while county fairs are proposed at current year levels of $4 million. The Agriculture College Land Scrip Fund, which includes revenues for the Penn State Extension program, is proposed to maintain funding at $51.8 million, following a modest increase in state appropriations for the current fiscal year. Also, the State Farmland Preservation Board will be meeting mid-February to set the 2017 state funding threshold for farmland preservation and will be considering a $35 million threshold, a slight increase from the $32.7 million threshold set in 2016.

Funding for gypsy moth control is wrapped into the overall appropriation for state forest operations within the Department of Conservation and Natural Resources (DCNR); while the governor's proposal shows a significant decrease in general fund dollars, in reality it reflects only a shift in current operating costs back to the Oil and Gas Lease Fund from the general fund. Black fly control and West Nile virus prevention programs receive a nominal increase of under the Governor's plan.

The governor has proposed level funding for conservation districts, maintaining $3.375 in total General Fund dollars from the departments of Agriculture and Environmental Protection. Conservation districts are also set to receive more than $7.5 million annually under Act 13 of 2012.

The governor is proposing a bond initiative to provide $15 million in annual funding over three years, with FY 2017-2018 funds directed for farm erosion and sediment management plans ($4.7 million), local water quality efforts ($8.3 million) and the Chesapeake Bay Riparian Forest Buffer Program ($2 million).

Alcohol, Tobacco and Other Drugs. The governor's FY 2017-2018 proposal calls for a slight increase in federal Substance Abuse Prevention and Treatment Block Grant funding, and the state match for the Block Grant is consistent with the current year. The governor's proposal also includes $10 million in new funding to provide Naloxone to first responders and schools through the Pennsylvania Commission on Crime and Delinquency (PCCD). An additional $3.4 million would be made available through PCCD for the expansion of drug courts.

Funding for the Centers of Excellence will continue through a mix of existing state and federal dollars. The administration anticipates $47 million in federal funds for treatment for the uninsured and underinsured through the federal Substance Abuse and Mental Health Services Administration's (SAMHSA) Opioid State Targeted Response. Further details are being sought on an additional $1 million in federal funding for access to medication-assisted treatment.

Funding levels for Act 152 services are contained in the outpatient Medical Assistance line item, but the specific allocations out of the line were not available at press time. Intermediate punishment programs are proposed to be level funded, while tobacco prevention and cessation funding is projected to be slightly higher than the current year.

Children and Youth. The governor's proposed children and youth budget reflects the rebalancing initiative implemented in FY 2015-2016; that is, the proposed funding for FY 2017-2018 of $1.62 billion is representative of the reconciliation of the fourth quarter of FY 2016-2017 expenses, and further rolls forward 12.5 percent of the determined needs for FY 2017-2018 to be paid in FY 2018-2019. Of particular note, this is also the first year in which the change to a cash system from an accrual system takes effect.

The governor's proposal for FY 2017-2018 includes an increase of $57.4 million based on the counties' needs based budgets as well as an additional $10.6 million to continue current programming. However, while the governor's budget purports to increase the child welfare budget by nearly $68 million, it is offset by a recapture of underspent funds from FY 2016-2017 in the amount of close to $24 million, so the net result is an increase of $44.3 million, or about three percent, for children and youth.

In addition, the proposed budget for Family Centers includes a $12 million initiative for home visiting for at-risk infants and toddlers, more than doubling the current year budget, as well as a nearly $40 million increase for child care centers.

Community and Economic Development. The governor's budget proposal calls for a modest increase of $115,000 for the Center for Local Government Services. In addition, the Municipal Assistance Program, which funds shared service, community planning and flood plain management activities for local governments, is set to be level funded at $642,000. The Pennsylvania First program, focused on investment and job creation in Pennsylvania, is also proposed to receive level funding for FY 2017-2018 totaling $20 million. Funding for tourism to attract businesses sees a nominal increase, while the Office of Open Records would see a nearly eight percent increase. The proposed budget for FY 2017-2018 further includes an additional $6.1 million for tourism marketing, as well as a new apprenticeship grant program and a $5 million manufacturing training-to-career program. Other areas such as Keystone Communities and the Partnership for Regional Economic Performance would experience decreases in the FY 2017-2018 budget proposal.

Homeless Assistance Program. Funding to provide temporary shelter to homeless individuals and rental assistance to those in danger of becoming homeless is proposed to be flat funded in FY 2017-2018, remaining at $18.9 million for the fifth straight year.

Human Services Development Fund. HSDF is proposed to be funded at $13.46 million in FY 2017-2018, the same as current year levels, and does not include restoration of the FY 2012-2013 cut. This funding allows counties to use dollars not only where they are most needed, but where they can best reduce costs to human services programs in the long run.

Judiciary. The governor’s budget request generally maintains levels of funding from the enacted FY 2016-2017 budget for most judicial line items that impact the counties. The proposal fails to address the 33 percent decrease for court cost reimbursement that was in the FY 2016-2017 budget, keeping funding at the current year level. Funding for grants to counties to meet mandates for assuring access to those with limited English proficiency also would remain level funded at $1.5 million under the governor’s proposal.

The FY 2017-2018 budget proposal includes $3.4 million for drug court expansion, to be issued as grants through PCCD.

There is no direct allocation for the district attorney salary reimbursement, but concurrent with budget action in 2009, a permanent court fee surcharge was imposed to raise funds for the commonwealth share and the reimbursement is gradually catching up.

Juvenile Justice. Funding levels for juvenile detention and delinquency alternative programs are unavailable at press time; the Department of Human Services will provide a breakdown of the specific funding levels within the next few weeks. While deinstitutionalization efforts continue, programs are experiencing increasingly dense populations of high-risk youth, requiring specialized services and increased supervision which drive daily costs. So, while overall system costs appear to decrease due to lower overall demand, the investment per child for moderate and high-risk offenders needs to increase as providers intensify services which are more likely to result in reduced recidivism (future victimization) and ultimately reduced long-term costs.

Libraries. In the Department of Education, the public library subsidy is proposed to be flat funded at $54.5 million.

Long-term Care. As in previous years, the long-term care appropriation in the budget is split into three areas – home and community-based services, long-term care managed care, and long-term care which includes funding for nursing homes. Once again, additional funding sources such as the Lottery Fund, Tobacco Settlement, and nursing home assessment are being utilized to help support the funding levels for long-term care. Also, for the first time in years, the Intergovernmental Transfer (IGT) is being used to support funding for long-term care.

For nursing homes, the projected long-term care state funding for FY 2017-2018 of $1.2 billion shows an almost ten percent increase compared to the allocation for FY 2016-2017, and even though home and community based funds decrease slightly, the proposal represents an overall increase in funding for long-term care. This ten percent increase, however, is allocated for the implementation of Community HealthChoices, Pennsylvania's Long-Term Care Managed Care Program. It is still unclear at this time if the governor's budget includes a Medicaid rate increase for nursing homes, but after experiencing flat funding the past two years and with costs continuing to rise, a rate increase is much needed. In FY 2017-2018, additional relief for county nursing homes will continue to be provided through the Intergovernmental Transfer (IGT), and the cost of the county share is set to expire with the implementation of Community HealthChoices in January 2018. Proposed supplemental FY 2016-2017 funds and additional increases for FY 2017-2018 bring state funding for home- and community-based services to $336.4 million (plus lottery funds of $120.7 million), while federal funds of $494.2 million represent a very slight decrease for FY 2017-2018.

Medical Assistance Transportation Program. The governor's FY 2017-2018 budget proposes a decrease in state funds of $2.4 million, offset by a slight increase in federal match funds, for a net decrease of about $1.1 million. CCAP and its affiliates will continue to monitor the program and the feedback from counties to assure the funding allocation is adequate to cover program costs.

Mental Health and Intellectual Disabilities, Early Intervention and Autism. The proposed budget contains an overall increase in funding for FY 2017-2018. FY 2017-2018 funding levels for mental health services (base) contains a small decrease, but the allocation should be sufficient to maintain current programming. This line item also proposes approximately $4.7 million to be dedicated to expansion of community-based services for 90 individuals currently residing in state hospitals. Funding for private intermediate care facilities is proposed to decrease by approximately $5 million in combined state and federal funds in FY 2017-2018, due primarily to the ongoing effort to transition individuals from facility-based care to community-based care.

The state-funded Behavioral Health Initiative is proposed to see approximately $4 million in increased funding, primarily to continue the Centers of Excellence as well as the traditional Behavioral Health Services Initiative (BHSI).

Community base funding for intellectual disabilities would remain essentially the same with about a one percent increase over enacted FY 2016-2017 levels (state and federal combined). The appropriation allows for the continuation of current services and expansion of Targeted Case Management State Plan Services for 455 individuals currently on the waiting list. In addition, the Community Waiver Program for intellectual disabilities is proposed to receive an 18 percent increase, including almost $110 million to cover increased utilization and costs, approximately $55 million for rate increases from the renewal of the waiver program, a little more than $8.5 million to provide home and community based services for 820 students graduating from special education programs across the state and approximately $15 million to create a new program for family caregivers designed to ensure that 1,000 individuals currently on the waiting list can continue to live at home.

The Early Intervention Program (birth to age 3) would see a four percent increase, which is the first increase in this budget line in several years. This initiative provides services and supports to children with developmental delays and their families. Finally, the Bureau of Autism Services is proposed to increase funding by 14 percent, which would include funding to continue the current program and to annualize previous initiatives, as well as $800,000 to expand Targeted Services Management State Plan Services to 1,545 individuals on the waiting list and $600,000 to provide home and community based services for 50 additional adults.

Human Services Block Grant. In November 2016, counties achieved the expansion of the Human Services Block Grant to any willing and capable county through Act 153, allowing participating counties to allocate a portion of certain human services funds across program areas and thereby increasing their ability to match available dollars to local needs. However, the governor's FY 2017-2018 budget proposal fails to include restoration of the FY 2012-2013 cuts to these lines, which impact funding for all 67 counties in these programs.

Transportation. The FY 2016-2017 budget reflects the fourth year of funding for roads, bridges, transit systems and other infrastructure under Act 89 of 2013, including an $11 million increase for public transportation assistance.