

Commonwealth of Pennsylvania Recovery Plan

State and Local Fiscal Recovery Funds

2021 Report

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Commonwealth of Pennsylvania
2021 Recovery Plan

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GENERAL OVERVIEW

Executive Summary

The Commonwealth of Pennsylvania was awarded \$7,291,328,098 in State and Local Fiscal Recovery Funds (SLFRF) which was received on May 21, 2021, in one tranche. The Pennsylvania General Assembly appropriated \$4.6 billion of the funds for use in Fiscal Year 2021-22. The funds were appropriated into six specific uses, all being claimed under the revenue replacement (EC6) provisions of the American Rescue Plan Act.

As of July 31, 2021, none of the appropriated funds had been spent. Spending is expected to begin occurring in the quarter ending September 30, 2021, as programs are developed and implemented.

The remaining \$2,691,328,098 of SLFRF dollars is expected to be appropriated in future fiscal years as Pennsylvania lawmakers determine its planned use.

This report is based on our current understanding of guidance issued by the U.S. Treasury and is subject to revision as more guidance is issued.

Uses of Funds

Per Act 1A of 2021¹, Pennsylvania intends to use \$4.6 billion of SLFRF funds in state Fiscal Year (FY) 2021-22 for revenue replacement (EC6) in the following areas:

1. \$3.841 billion to be transferred to the General Fund to continue government operations.
2. \$5 million to be transferred to the Emergency Medical Services (EMS) Operating Fund.
3. \$372 million for Pandemic Response.
4. \$50 million to the Pennsylvania State System of Higher Education (PASSHE).
5. \$282 million for Long-Term Living Programs.
6. \$50 million to the Pennsylvania Housing Finance Authority (PHFA) for Construction Cost Relief.

The transfer of \$3.841 billion to the General Fund is intended to help pay for the continuation of critical services in FY 2021-22.

In FY 2021-22, total General Fund budget is \$38,584,580,000 (approximately \$38.6 billion).

The major areas of General Fund spending include the Department of Education, \$14.5 billion, and the Department of Human Services, \$16.1 billion. Together, these two departments make up 79.5% of the state spend in the FY 2021-22 budget. Departments related to the protection of persons and property make up another 10% of the state budget. The funds remaining are related to departments dealing with economic development, direction and supportive services, debt service funds, and other programs.

This fiscal year, with the substantial assistance provided by \$3.841 billion transfer of SLFRF funds to the General Fund, not only were state government services able to be continued, but several new critical investments were able to be made which will help Pennsylvanians recover from the pandemic and the disruptions it triggered. See Appendix to see how the transfer is reflected in the FY 2021-22 General Fund Balance Sheet.

Within the Department of Human Services, which improves the quality of life for Pennsylvania's individuals and families and promotes opportunities for independence through services and supports, the FY 2021-22 budget includes a \$2.5 billion increase in state General Fund spending.

One of the primary drivers of this increase is Medical Assistance (MA), Pennsylvania's Medicaid program. MA enrollment has increased more than 13% since the start of the pandemic and is expected to remain at this higher level throughout FY 2021-22. Funding for other services where demand was impacted by COVID-19, such as County Administration, County Child Welfare, Early Intervention, Rape Crisis, and Legal Services also received marked increases in the FY 2021-22 budget.

The Department of Education, which ensures every learner has access to a quality education system that academically prepares children and adults to succeed as productive citizens,

¹ See Part XXX. COVID-19 Response Restricted Account Federal Appropriations for Current Fiscal Year, <https://www.legis.state.pa.us/cfdocs/Legis/LI/uconsCheck.cfm?txtType=HTM&yr=2021&sessInd=0&smthLwInd=0&act=1A>.

received historic new investments in the FY 2021-22 budget, with the help of SRF dollars. The FY 2021-22 budget increased funding for the Basic Education subsidy to school districts by \$300 million. Of this increase, \$200 million was added to the funds distributed through the fair funding formula, a bipartisan formula created in FY 2015-16, which considers local wealth and equity differences. The other \$100 million is being distributed through the newly created “Level Up” equity supplement which provides targeted funding for the 100 most underfunded school districts. The Level Up supplement will move the state one step closer to equitably funding public school districts.² The budget includes a \$30 million increase in funding for high-quality early learning for lower-income families. Also receiving critical increases are pre-school Early Intervention services (\$11 million) and Special Education (\$50 million) subsidies to help school districts pay for increasing costs.

In the Department of Agriculture, there was a \$3 million increase for the State Food Purchase Program and the Pennsylvania Agriculture Surplus System. By making food security a priority, boosting farm income, and putting fresh, local foods on the tables of Pennsylvanians in need, the 2021-22 budget addresses issues brought to the forefront by the pandemic.³

Within the Department of Health, the 2021-22 budget doubles the funding of State Health Care Centers and provided nearly \$2 million in new funding for Local Health Departments, both of which have been critical in our fight of COVID-19.

The 2021-22 budget allocates \$5 million in SLFRF dollars to be transferred to the Emergency Medical Services (EMS) Operating Fund to provide grants to EMS providers. These funds will be used to replace revenue lost in the fund due to the pandemic. The replacement funds will be made available for grants to the overall EMS system which has been on the front lines of the pandemic. Allowable uses will include training to underserved rural areas, medical equipment purchases for ambulances, and regional councils to develop, maintain, and improve EMS systems.

The budget directs \$372 million from SLFRF for Pandemic Response. Developed with input from the General Assembly, this program will be used for a variety of programs and government services in order to create and retain jobs, invest in areas hard hit by the pandemic’s economic impacts, and maintain flexibility in responding to the pandemic.

The Pennsylvania State System of Higher Education (PASSHE) receives \$50 million of the commonwealth’s SLFRF allocation in FY 2021-22. PASSHE is the state-owned system of higher education in Pennsylvania and provides affordable higher education to students. PASSHE will use the funds to strengthen the system’s universities and reimagine how it delivers the high-quality services its students deserve.

The FY 2021-22 budget appropriates \$282 million of the SLFRF dollars for Long-Term Living Programs to provide assistance to long-term care facilities as they combat COVID-19 impacts. These funds will be used to support nursing facilities, assisted living facilities, and personal care homes. These facilities have been the hardest impacted by COVID-19. The funds will be

² <https://www.media.pa.gov/pages/education-details.aspx?newsid=1151>.

³ https://www.media.pa.gov/pages/agriculture_details.aspx?newsid=1109.

distributed based on bed capacity, occupancy, acceptance of the SSI supplement, and Medicaid bed days to ensure that the funds are distributed equally based on impact and need. General use of these funds by facilities will support testing, premium pay, lost revenues, and other expenses incurred due to the pandemic. Additionally, a small portion of the funds will be made available to facilities for improvements to their air quality control to prevent the spread of disease.

Finally, the FY 2021-22 budget directs \$50 million in SLFRF dollars to the Pennsylvania Housing Finance Authority (PHFA) for Construction Cost Relief. The commonwealth has authorized the Construction Cost Relief program to provide additional funding to affordable housing projects that have been impacted by COVID-19 due to either increased construction costs or decreased funding sources due to decreased valuation of low-income housing tax credits by investors. This program is designed to fill these COVID-related funding gaps for projects currently in construction but not yet completed or projects which have not been able to close and start construction due to COVID-19 disruptions. This funding is also secondary and will be used to supplement projects that cannot fill gaps from existing sources such as Housing Trust Fund monies and other grant awards.

The \$4.6 billion in revenue replacement (EC6) SLFRF funds defined above, describes current planned uses of appropriated funds. As guidance from the U.S. Treasury is released regarding the documentation required for dollars used in the revenue replacement expense category, this section will be updated. Future editions of the Performance Report will include more details on programs using SLFRF dollars as they are developed in accordance with further Treasury guidance.

As of July 31, 2021, none of the \$4.6 billion that was appropriated from the commonwealth's SLFRF allocation had been spent. The remaining balance of SLFRF funds provided to the Commonwealth of Pennsylvania (just over \$2.6 billion) will be appropriated in future budgets, or as specific needs arise.

Promoting equitable outcomes

The Commonwealth of Pennsylvania plans to distribute SLFRF funds in a fair and equitable manner with a focus on serving disproportionately impacted communities. As Pennsylvania continues to build spending plans for our revenue replacement programs (EC6), equitable distribution will be a constant theme and consideration. At this time, the following intended outcomes are anticipated:

- General Fund Transfer (\$3.841 billion) – Many General Fund programs, particularly regarding education and health care/human services are focused to provide the most assistance to those in most need. Notable uses regarding the promotion of equitable outcomes are the increases in Basic Education funded with the assistance of SLFRF transferred to the General Fund. The \$300 million in new Basic Education funding will be driven out to either the 100 most underfunded school districts or to all school districts based on a formula that distributes state resources to schools using factors such as local wealth, poverty, English Language Learners, community differences, local effort and capacity, and rural/small district conditions. These funds will help ensure that all students in every zip code have the resources they need for a quality education.
- Emergency Medical Services (EMS) Operating Fund Transfer (\$5 million) - These funds are intended to develop, maintain, and strengthen EMS, particularly in underserved areas.
- Pandemic Response (\$372 million) - The Commonwealth of Pennsylvania will work to design programs that consider equitable outcomes in the communities served when determining how funds will be distributed.
- Pennsylvania State System of Higher Education (PASSHE) (\$50 million) - PASSHE's focus on using these funds will be consistent with their goals of student and university success. These funds will be used to strengthen our universities, and to reimagine how we deliver the high-quality services our students deserve. Key to this initiative will be specific student support programs, especially as it relates to diversity, equity, and inclusion investment.
- Long-Term Living Programs (\$282 million) - These funds will be used to assist facilities that support seniors and individuals with disabilities. Additionally, particular emphasis is placed on providing funding to facilities that accept low-income individuals. By definition, these facilities support seniors and individuals with disabilities.
- Pennsylvania Housing Finance Authority (PHFA) (\$50 million) – Funding for this program will be used to offset costs for affordable housing projects that have been impacted by COVID-19 due to either increased construction costs or decreased funding sources relative to decreased valuation of low-income housing tax credits by investors. These dollars will help provide lower income Pennsylvanians with safe and affordable places to live.

Community Engagement

The Commonwealth of Pennsylvania recognizes that tailoring programs and assistance to communities is important. Community engagement is something that we will take into consideration as we continue to develop our spending plans. Additional details, as developed, will be provided in subsequent SLFRF Recovery Plan Performance Reports.

The Commonwealth of Pennsylvania plans to incorporate feedback from constituents, community-based organizations, and the communities themselves as funds are distributed and programs are created to serve these needs.

Labor Practices

The Commonwealth of Pennsylvania does not have anything specific to report on labor practices, as we do not anticipate any infrastructure projects will be pursued at this time. However, the commonwealth affirms that it is committed to all fair labor standard practices throughout all aspects of its business.

Use of Evidence

The Commonwealth of Pennsylvania will look for opportunities to incorporate program evaluations to determine how the use of SLFRF funds provides evidence that communities and affected groups are recovering from the pandemic, as applicable. At this time, these evaluations have not been developed. As the commonwealth has more information to share on the use of evidence, we will provide it in subsequent SLFRF Recovery Plan Performance Reports.

Table of Expenses by Expenditure Category

At this time, the Commonwealth of Pennsylvania is planning to spend all of its SLFRF funds under the Revenue Replacement Expenditure Category (EC6).

Expenditure Category		Cumulative expenditures to date (\$)	Amount spent since last Recovery Plan
1	Expenditure Category: Public Health	\$0	\$0
1.1	COVID-19 Vaccination		
1.2	COVID-19 Testing		
1.3	COVID-19 Contact Tracing		
1.4	Prevention in Congregate Settings (Nursing Homes, Prisons/Jails, Dense Work Sites, Schools, etc.)		
1.5	Personal Protective Equipment		
1.6	Medical Expenses (including Alternative Care Facilities)		
1.7	Capital Investments or Physical Plant Changes to Public Facilities that respond to the COVID-19 public health emergency		
1.8	Other COVID-19 Public Health Expenses (including Communications, Enforcement, Isolation/Quarantine)		
1.9	Payroll Costs for Public Health, Safety, and Other Public Sector Staff Responding to COVID-19		
1.10	Mental Health Services		
1.11	Substance Use Services		
1.12	Other Public Health Services		
2	Expenditure Category: Negative Economic Impacts	\$0	\$0
2.1	Household Assistance: Food Programs		
2.2	Household Assistance: Rent, Mortgage, and Utility Aid		
2.3	Household Assistance: Cash Transfers		
2.4	Household Assistance: Internet Access Programs		
2.5	Household Assistance: Eviction Prevention		
2.6	Unemployment Benefits or Cash Assistance to Unemployed Workers		
2.7	Job Training Assistance (e.g., Sectoral job-training, Subsidized Employment, Employment Supports or Incentives)		
2.8	Contributions to UI Trust Funds*		
2.9	Small Business Economic Assistance (General)		

Expenditure Category		Cumulative expenditures to date (\$)	Amount spent since last Recovery Plan
2.10	Aid to nonprofit organizations		
2.11	Aid to Tourism, Travel, or Hospitality		
2.12	Aid to Other Impacted Industries		
2.13	Other Economic Support		
2.14	Rehiring Public Sector Staff		
3	Expenditure Category: Services to Disproportionately Impacted Communities	\$0	\$0
3.1	Education Assistance: Early Learning		
3.2	Education Assistance: Aid to High-Poverty Districts		
3.3	Education Assistance: Academic Services		
3.4	Education Assistance: Social, Emotional, and Mental Health Services		
3.5	Education Assistance: Other		
3.6	Healthy Childhood Environments: Child Care		
3.7	Healthy Childhood Environments: Home Visiting		
3.8	Healthy Childhood Environments: Services to Foster Youth or Families Involved in Child Welfare System		
3.9.	Healthy Childhood Environments: Other		
3.10	Housing Support: Affordable Housing		
3.11	Housing Support: Services for Unhoused persons		
3.12	Housing Support: Other Housing Assistance		
3.13	Social Determinants of Health: Other		
3.14	Social Determinants of Health: Community Health Workers or Benefits Navigators		
3.15	Social Determinants of Health: Lead Remediation		
3.16	Social Determinants of Health: Community Violence Interventions		
4	Expenditure Category: Premium Pay	\$0	\$0
4.1	Public Sector Employees		
4.2	Private Sector: Grants to other employers		
5	Expenditure Category: Infrastructure	\$0	\$0
5.1	Clean Water: Centralized wastewater treatment		
5.2	Clean Water: Centralized wastewater collection and conveyance		
5.3	Clean Water: Decentralized wastewater		
5.4	Clean Water: Combined sewer overflows		
5.5	Clean Water: Other sewer infrastructure		
5.6	Clean Water: Stormwater		

Expenditure Category		Cumulative expenditures to date (\$)	Amount spent since last Recovery Plan
5.7	Clean Water: Energy conservation		
5.8	Clean Water: Water conservation		
5.9	Clean Water: Nonpoint source		
5.10	Drinking water: Treatment		
5.11	Drinking water: Transmission & distribution		
5.12	Drinking water: Transmission & distribution: lead remediation		
5.13	Drinking water: Source		
5.14	Drinking water: Storage		
5.15	Drinking water: Other water infrastructure		
5.16	Broadband: "Last Mile" projects		
5.17	Broadband: Other projects		
6	Expenditure Category: Revenue Replacement	\$0	\$0
6.1	Provision of Government Services	\$0	\$0
7	Administrative and Other	\$0	\$0
7.1	Administrative Expenses		
7.2	Evaluation and data analysis		
7.3	Transfers to Other Units of Government		
7.4	Transfers to Nonentitlement Units (States and Territories only)	\$463,353,820.03	\$463,353,820.03

Project Inventory

As stated throughout this report, Pennsylvania intends to use \$4.6 billion of SLFRF funds in FY 2021-22 for revenue replacement (EC6) in six specific areas. These uses are again identified here:

- \$3.841 billion to be transferred to the General Fund to continue to provide critical government services and fund new programs to aid those most affected by the pandemic.
- \$5 million to be transferred to the Emergency Medical Services (EMS) Operating Fund to provide grants to EMS providers.
- \$372 million for pandemic response through the creation of a variety of programs and government services (details yet to be determined).
- \$50 million to the Pennsylvania State System of Higher Education (PASSHE) to assist state-owned universities in providing affordable higher education to students.
- \$282 million for Long-Term Living Programs to provide assistance to long-term care facilities as they combat COVID-19 impacts.
- \$50 million to the Pennsylvania Housing Finance Authority (PHFA) for Construction Cost Relief.

Currently, we are still determining if these uses constitute projects or not. Further guidance from the U.S. Treasury on reporting for revenue replacement (EC6) uses will be helpful in this endeavor. As our SLFRF supported spending plans and programs are further developed over the next few months, we will adapt our reporting into projects as required.

Any additional guidance the U.S. Treasury can provide on how to determine what constitutes a project would be greatly appreciated.

Ineligible Activities: Tax Offset Provision (States and territories only)

The Commonwealth of Pennsylvania understands that there are SLFRF spending restrictions and affirms it will not use SLFRF funds on activities deemed ineligible.

Item	Amount
a. Revenue-reducing Covered Changes	-\$92,800,000

The FY 2021-22 budget included four changes that are expected to result in a decrease in revenue in FY 2021-22 and beyond. The expected reduction is \$92.8 million, or 0.2% of expected General Fund revenue in FY 2021-22. See the General Fund Financial Statement in the Appendix.

Act 24 of 2021, the Fiscal Code, included a waiver of fees that is projected to decrease revenues by \$1 million in FY 2021.22.⁴

Act 26 of 2021, which amends the Public School Code of 1949, includes an increase in educational tax credits that is projected to reduce revenues in FY 2021-22 by \$40 million.⁵

Finally, Act 25 of 2021, which amends the Tax Reform Code of 1971, includes changes that are expected to reduce revenues in FY 2021-22 by \$51.8 million. These changes include the creation of sales tax exemptions and exclusions, changes to corporate income tax deductions, and tax credit changes.⁶

Act 25 of 2021 also included provisions that increased revenue collections but are not detailed here as Treasury guidance had states and territories report only revenue-reducing changes at this time.

⁴ See Section 1727-E,

<https://www.legis.state.pa.us/cfdocs/Legis/LI/uconsCheck.cfm?txtType=HTM&yr=2021&sessInd=0&smthLwInd=0&act=24>.

⁵ See changes in Section 2006-B.

<https://www.legis.state.pa.us/cfdocs/Legis/LI/uconsCheck.cfm?txtType=HTM&yr=2021&sessInd=0&smthLwInd=0&act=26>.

⁶ <https://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2021&sessInd=0&act=25>. Fiscal notes to the bill summarize the changes.

<https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?year=2021&sind=0&body=H&type=B&bn=0952>.

Appendix - General Fund Financial Statement - 2021-22 Enactment

General Fund Financial Statement

	2019-20 <u>Actual</u>	2020-21 <u>Actual</u>	2021-22 <u>Available</u>
Beginning Balance	\$ -	\$ (2,734,070)	\$ -
Adjustments to Beginning Balance	30,373	18,795	
Budget Base Revenue Actual/Estimate	32,275,785	36,954,700	38,770,100
Base Revenue Adjustments		3,496,818	
Base Revenue Subtotal	32,275,785	40,451,518	38,770,100
GA & Code Bills:			
GA Bill:			
Nontax Miscellaneous - ARP - Revenue Loss			3,841,000
Fiscal Code:			
Nontax Miscellaneous - Special Fund Transfers		(59,500)	
Nontax Licenses & Fees - BOIS Waivers			(1,000)
School Code:			
Corp and Other Taxes - EITC			(40,000)
Tax Code:			
Corp - CNIT, Bank Shares & Insurance Premiums			(34,600)
Consumption - SUT Exemptions			(17,200)
Other - Table Games & PIT			17,900
Revenue Actuals/Estimates Subtotal	32,275,785	40,392,018	42,536,200
Federal Stimulus:			
COVID-19 Enhanced FMAP	1,129,395	1,651,173	1,473,395
CRF - Public Health & Safety Staff*		1,532,151	
Revenue Actuals/Estimates	33,405,180	43,575,342	44,009,595
Refunds	(1,150,000)	(1,262,000)	(1,325,000)
Total Balance and Revenue	32,285,553	39,598,067	42,684,595
Prior-Year Lapses	200,000	220,000	110,000
Funds Available	32,485,553	39,818,067	42,794,595
Actual/Enacted Expenditures (Fy21-22 includes ARP Rev Loss)	34,090,228	33,163,290	38,584,580
Supplemental Appropriations		849,937	
Federal Stimulus Exp (Enhanced FMAP & CRF Staff)*	1,129,395	3,183,324	1,473,395
Total Expenditures	35,219,623	37,196,551	40,057,975
Current-Year Lapses			
Preliminary Balance	(2,734,070)	2,621,516	2,736,620
Transfer - Rainy Day Fund		(2,621,516)	
Ending Balance	\$ (2,734,070)	-	\$ 2,736,620

* Fy2020-21 includes \$99,408.89 posted in Fy2021-22 via ESN21-069.