

Commonwealth of Pennsylvania

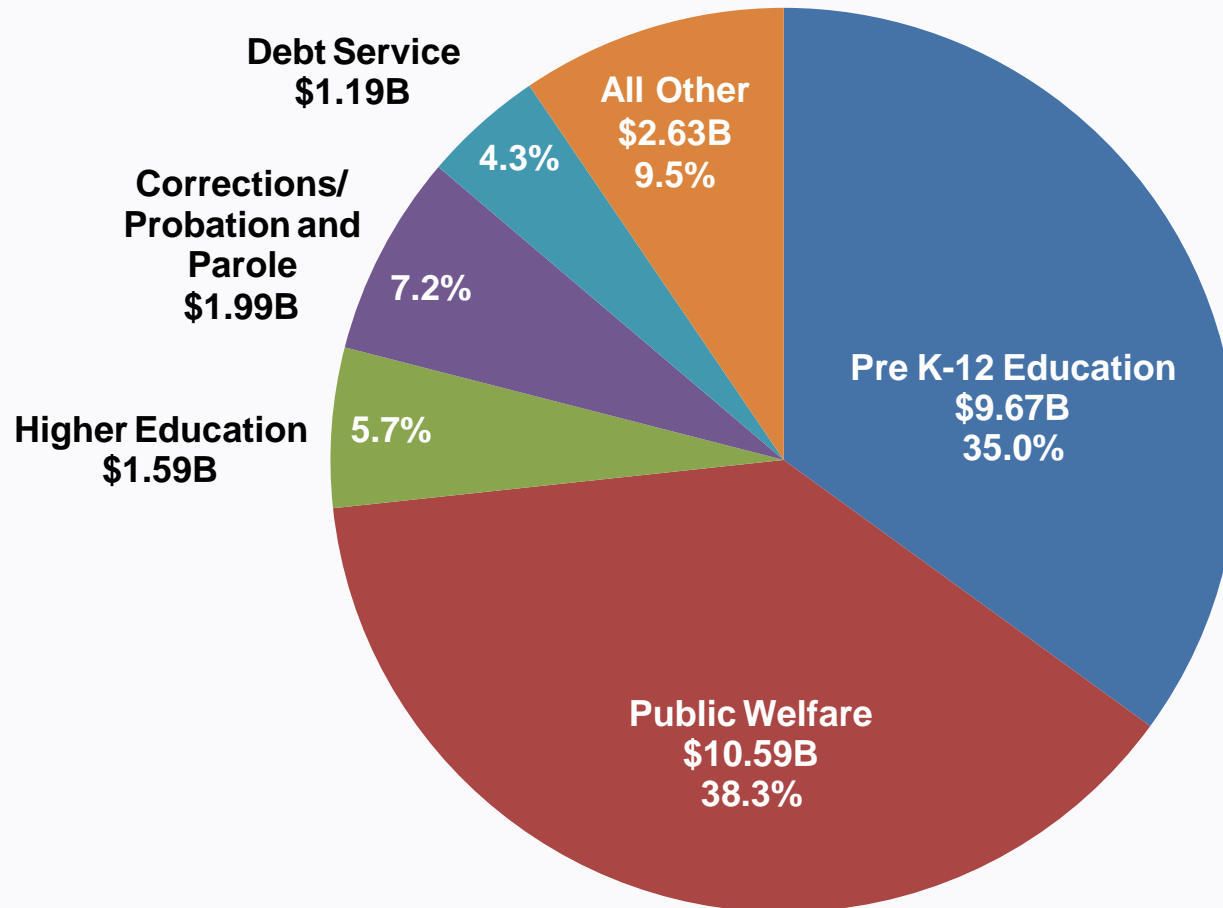
2012-13 Mid-Year Budget Briefing

Tom Corbett
Governor

Charles B. Zogby
Secretary of the Budget

December 4, 2012

2012-13 State General Fund Budget – \$27.66 Billion



2012-13 Enacted Budget Highlights

The 2012-13 budget was signed on June 30, 2012 – on time for the second consecutive year. The budget controls spending and further reduces taxes.

- The 2012-13 enacted General Fund budget is \$27.66 billion – an increase of \$470 million, or 1.7 percent, from the 2011-12 enacted budget.
- The budget continues the phase-out of the Capital Stock and Franchise Tax, expands the Educational Improvement Tax Credit (EITC) program by \$25 million and implements a new \$50 million EITC 2.0 program.
- \$39 million increase in the Basic Education Funding subsidy.
- Funding for school districts is increased over last year and the Accountability Block Grant is funded at \$100 million, supporting full-day kindergarten.
- \$4.5 million increase for DCED's PA First program, \$2.5 million for the new Keystone Works program in Labor & Industry and \$5 million for the Targeted Industry Cluster Certification program.
- Generally, level funding for higher education, the Department of Corrections and the Department of Public Welfare.

Post-Enactment Developments

Unemployment Compensation Debt Restructure

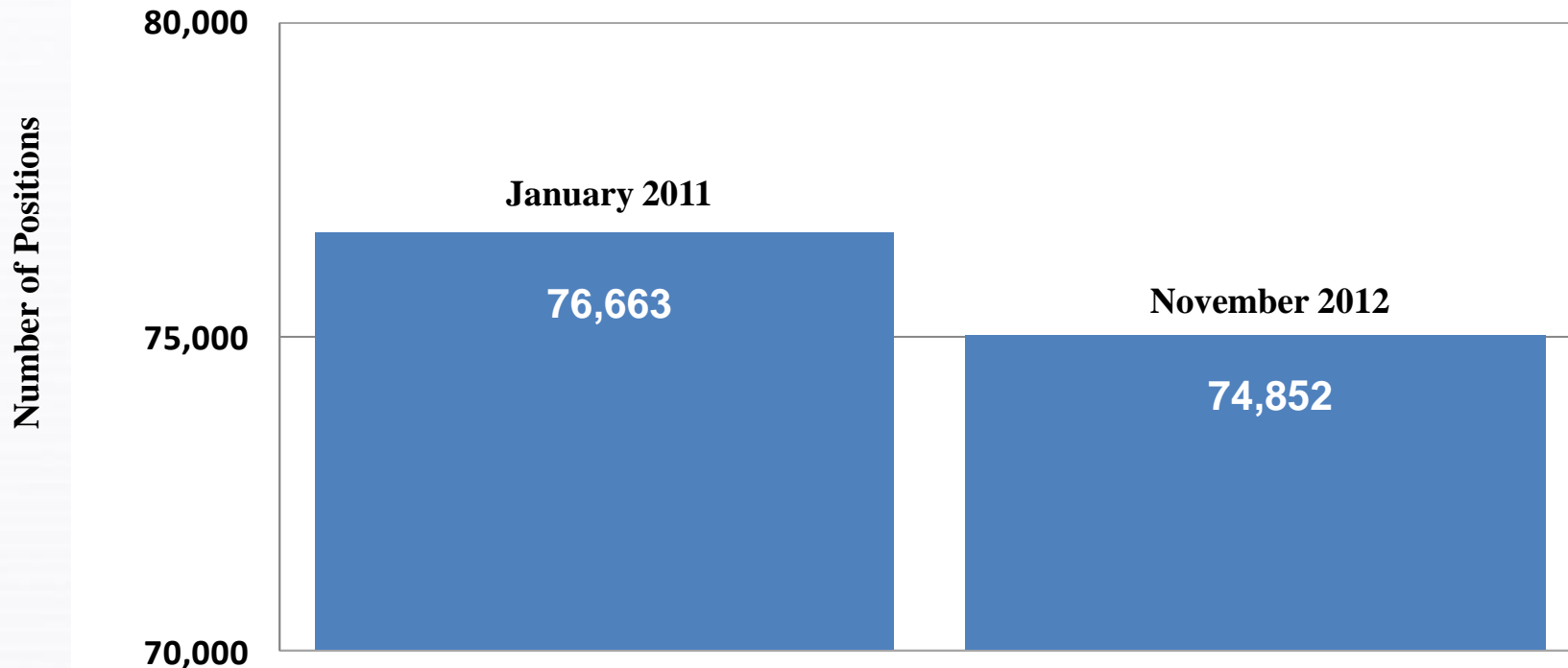
Pennsylvania has cleared its debt to the federal government through the state's sale of unemployment compensation, or UC, bonds. This effort is a continuation of the governor's commitment to reducing spending and growing jobs. As part of the state's comprehensive unemployment compensation reform, these bonds help to ensure a stable and reliable financial future for the commonwealth by saving employers money that they can now invest in the creation of jobs.

- Governor Corbett signed Act 60, Pennsylvania's UC reform legislation, which allowed for the issuance of bonds to repay the state's UC debt to the federal government.
- The issuance of bonds in late September became the permanent financing that repaid the Citibank interim financing and completes the cycle of transferring the high-interest debt to a low-interest alternative.
- In addition, Moody's Investors Service, one of the premier bond rating agencies, has awarded the bonds its highest rating possible, or "Aaa," demonstrating a confidence in Pennsylvania's economic stability.
- Pennsylvania will save more than \$380 million annually as result of the solvency measures enacted with Act 60.
- The savings of the UC bond is \$150 million to employers over the life of the bonds.

Reducing Administrative Spending

Since Governor Corbett took office in January 2011, filled staffing levels have declined by 1,811 positions, or 2.4 percent. Additionally, the Corbett administration has implemented significant reforms to the commonwealth's fleet and travel programs to enhance program accountability and reduce costs.

Reducing the Size of the Commonwealth's Workforce



Updates to U.S. Economic Forecasts

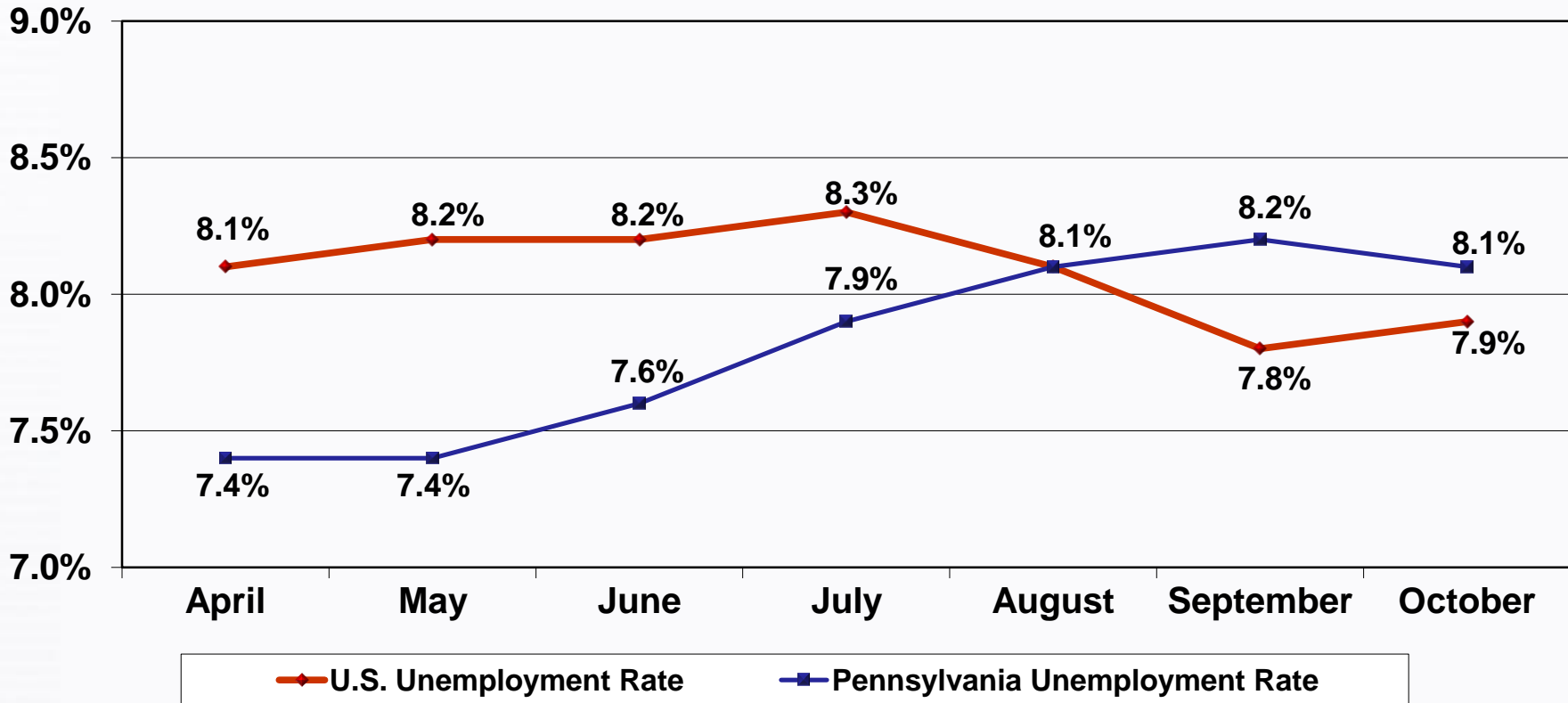
The 2012-13 budget was adopted in June 2012 and was based on economic forecasts available at that time. Since then, most economists – including Global Insight – have lowered their forecasts for economic growth for 2012 and 2013.

Global Insight's Outlook for Fiscal Year 2012-13 *Changes from June to October*

	<u>June 2012</u>	<u>October 2012</u>
Real GDP	2.2%	1.7%
Consumer Expenditures	3.5%	3.3%
U.S. Wages & Salaries	3.5%	3.7%

U.S. and PA Jobless Rates, 2012

Pennsylvania's unemployment rate had remained at or below the U.S. rate for 70 consecutive months through August before rising above the national rate in September.

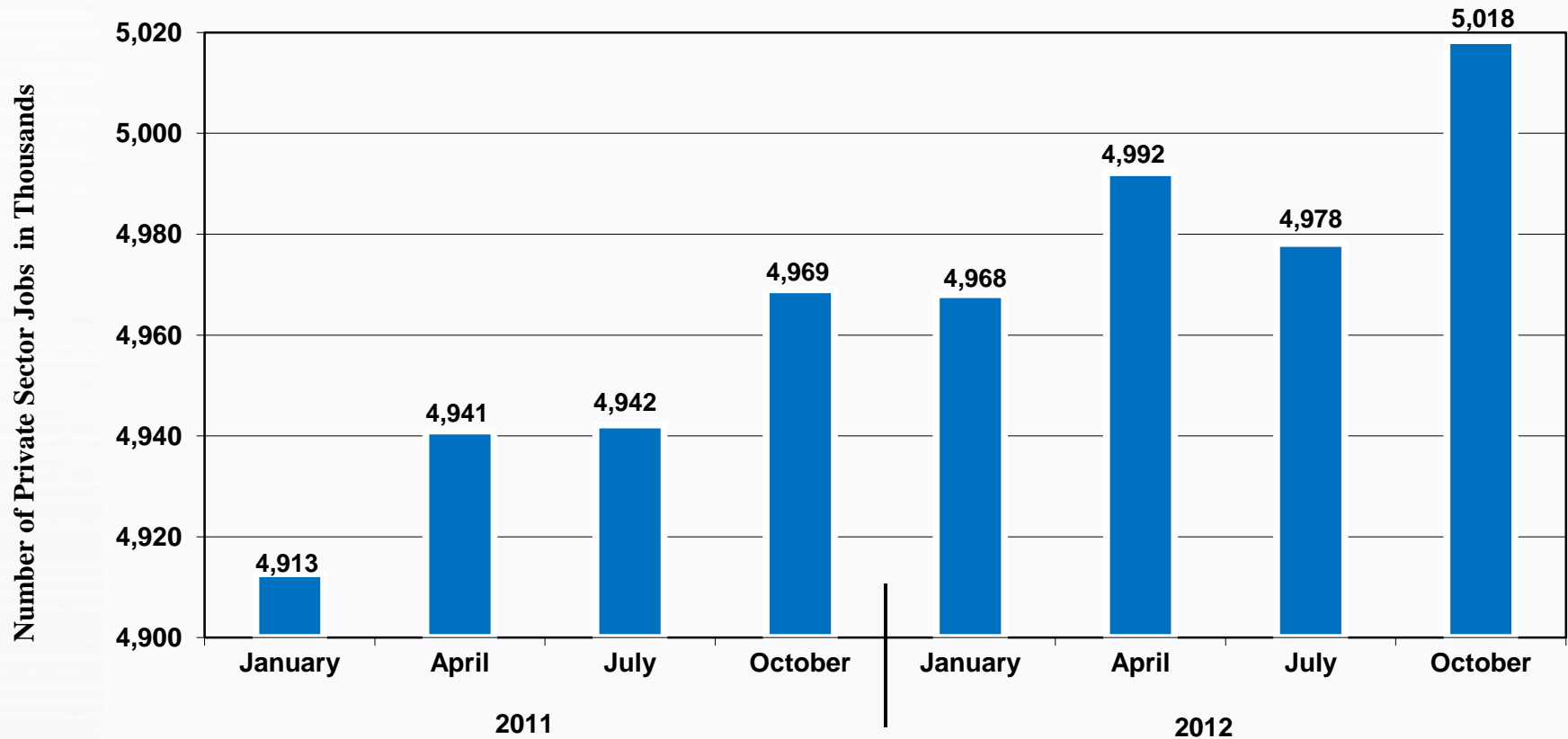


Source: PA Department of Labor and Industry, Monthly Seasonally Adjusted Labor Force Data.

November data will be available December 21st.

Growing Jobs in Pennsylvania

Since the Governor took office, Pennsylvania has increased private sector jobs by approximately 105,700.



2012-13 General Fund Revenues

In the first five months of 2012-13, Corporation Taxes, Other Taxes and Non-Tax Revenue are above estimate, while Consumption Taxes failed to meet estimates. Revenue collections are now \$59.1 million above estimate.

	Estimated	Actual	\$ Difference	% Difference
Tax Revenue:	<i>(Dollars in Millions)</i>			
Corporation Taxes	\$ 776.3	\$ 918.4	\$ 142.1	18.3%
Consumption Taxes	4,403.8	4,284.9	- 118.9	-2.7%
Sales & Use – Non- Motor	3,277.7	3,210.2	-67.5	-2.1%
All Other	1,126.1	1,074.7	-51.4	-4.6%
Other Taxes	4,447.3	4,453.8	6.5	0.1%
PIT Withholding	3,423.2	3,423.4	0.2	0.0%
PIT Non-Withholding	510.1	528.2	18.1	3.5%
All Other	514.0	502.2	-11.8	-2.3%
Non-Tax Revenue	100.0	129.4	29.4	29.4%
Total	\$ 9,727.4	\$ 9,786.5	\$ 59.1	0.6%

General Fund Financial Statement

(Dollars in Millions)

	<u>2012-13 Enacted</u>	<u>2012-13 Revised</u>
Beginning Balance	\$ 659	\$ 664
Revenue Estimate	28,590	28,590
Revenue Over/(Under) Estimate	0	85
Refunds	(1,300)	(1,300)
Total Revenue	<u>27,290</u>	<u>27,375</u>
Prior-Year Lapses	0	100
Funds Available	<u>27,949</u>	<u>28,139</u>
Expenditures	(27,656)	(27,661)
Current-Year Lapses	0	0
Total Expenditures	<u>(27,656)</u>	<u>(27,661)</u>
Preliminary Balance	293	478
Transfer to the Rainy Day Fund	0	0
Ending Balance	<u>\$ 293</u>	<u>\$ 478</u>

2013-14 Budget Planning

2013-14 Budget Development

- Governor Corbett instructed agencies to maintain level funding and that no general fund dollars will be used to backfill reduced federal funds.
- Impact of level funding equates to a seven to eight percent cut due to personnel cost increases.
- Governor Corbett has reiterated that no new taxes will be part of the 2013-14 budget.
- Supplemental appropriations will be needed for the Department of Military and Veteran Affairs for the Paralyzed Veterans program and potentially for the Department of State for reprinting State Reapportionment maps.

Cost Growth for Average-Salaried Employee (AFSCME plus Management)

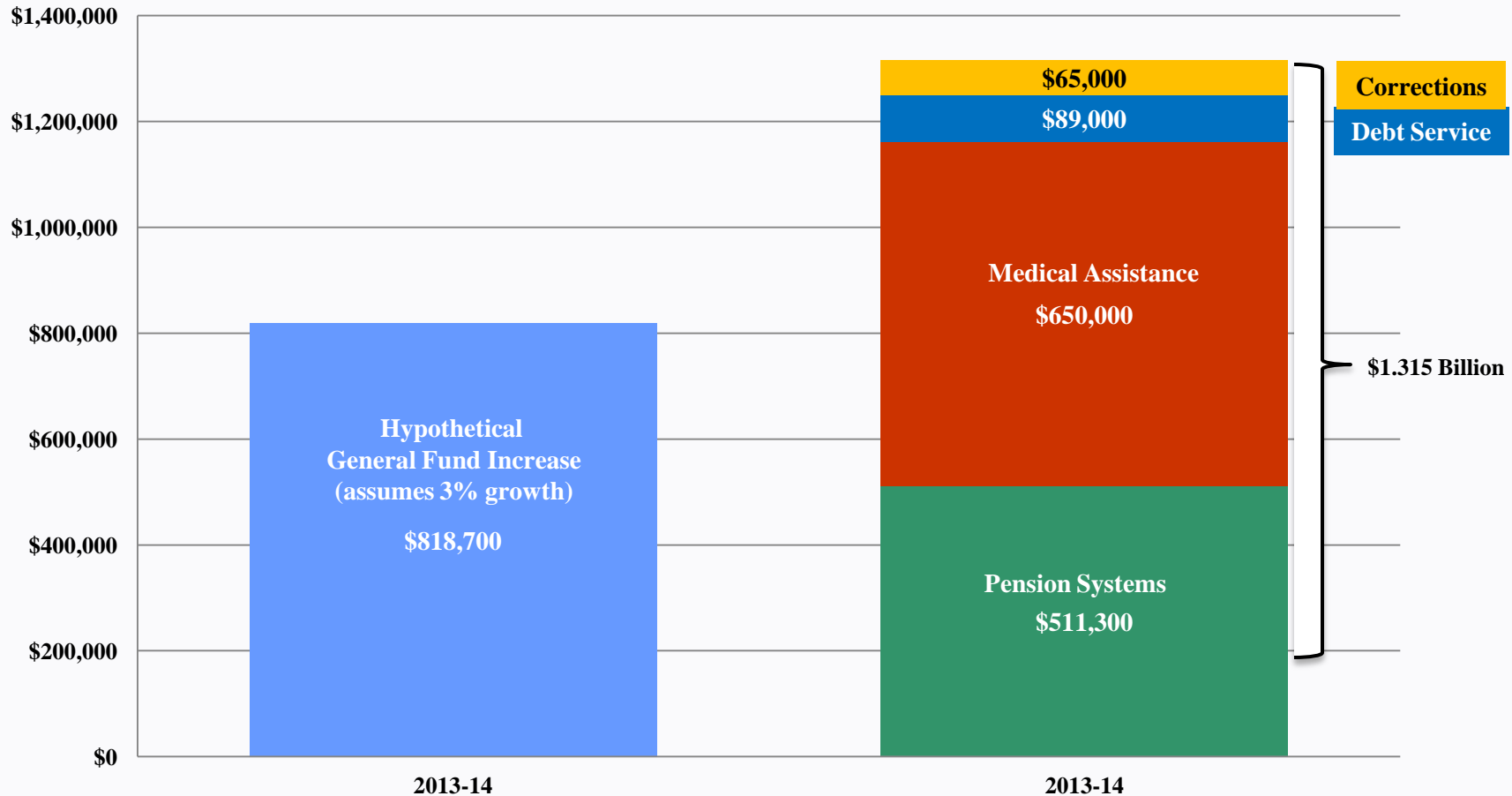
	(Dollars in Thousands)		Year-over-Year Change	
	<u>2012-13</u>	<u>2013-14</u>	\$	%
Personnel Costs:				
Salary	\$48,642	\$50,086	\$1,444	2.9%
Benefits -				
Active Health (PEBTF)	\$10,140	\$11,093	\$953	9.4%
Retiree Health	6,890	7,961	1,071	15.5%
Pension	5,112	7,623	2,511	49.1%
Other	5,857	5,952	95	1.6%
Benefits Subtotal	\$27,999	\$32,629	\$4,630	16.5%
Total Personnel Costs	\$76,641	\$82,715	\$6,074	7.9%
Benefits as a percent of salary	57.60%	65.10%		

Challenges Ahead for the 2013-14 Budget

- Pension cost growth of \$511 million (\$403 million for school employees' retirement and \$108 million for state employees' retirement that agencies must absorb)
- Managing growth in welfare spending in light of continued health care cost inflation
- Controlling the growth of Corrections costs
- Pending litigation against the commonwealth

Cost Drivers in the 2013-14 Budget *

(in Thousands)



*Assumes Hypothetical 3% General Fund Growth

Fiscal Cliff

Without federal action, automatic across-the-board sequestration cuts of approximately 8 percent are scheduled to take effect January 2013, along with tax cut expirations. Together, these events are referred to as the Fiscal Cliff and have the potential to impact General Fund revenue growth the remainder of this fiscal year and next.

- **Several exemptions:**
 - programs impacting low-income populations
 - Social Security benefits
 - Veterans Administration programs
 - Unemployment Compensation
 - Certain Transportation programs

- **Impact on Pennsylvania could be approximately \$300 million including:**
 - Social Services Block Grant
 - Small Community Block Grant
 - Special Education
 - Title 1
 - Workforce Investment

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