

Commonwealth of Pennsylvania

2013-14 Executive Budget

Tom Corbett
Governor

Charles B. Zogby
Secretary of the Budget

February 5, 2013

2013-14 Budget Highlights

- Governor Corbett's plan provides for a balanced budget that keeps spending in line with available revenues and does not raise taxes on Pennsylvania families and businesses.
- Spends \$28.4 billion – 2.4 percent increase over FY 2012-13.
- Major reform initiatives to sell the state liquor system to invest in education, modernize Pennsylvania's transportation infrastructure and overhaul the state pension systems.
- Enhanced support for Pre-K – 12 public education, public safety, older Pennsylvanians, and Individuals with disabilities.
- Eliminates the Capital Stock and Franchise Tax and proposes business tax reforms to spur job creation and economic growth.

General Fund Financial Statement

	(Dollars in Millions)	
	2012-13	2012-13
	<u>Available</u>	<u>Revised</u>
Beginning Balance	\$659	\$659
Beginning Balance Adjustment	0	14
Adjusted Beginning Balance	659	673
Revenue Estimate	28,590	28,590
Revenue Over/(Under) Estimate	0	232
Refunds	-1,300	-1,300
Total Revenue	27,290	27,522
Prior-Year Lapses	0	100
Funds Available	27,949	28,295
Expenditures	-27,667	-27,761
Current-Year Lapses	0	10
Total Expenditures	-27,667	-27,751
Preliminary Balance	282	544
Transfer to the Rainy Day Fund	0	0
Ending Balance	\$282	\$544

2012-13 Supplemental Appropriations Request

Total of \$96 million in supplemental requests:

Education – Early Intervention - \$10.8 million

Emergency Management Agency – Summer 2011 Storm Disaster Relief - \$14.9 million

Military and Veterans Affairs – Paralyzed Veterans Pension - \$830,000

Public Welfare – Total net supplemental of \$69.3 million, including:

- Long-Term Living - \$62.3 million increase
- Office of Medical Assistance - \$41.5 million increase
- Office of Income Maintenance - \$26.7 million decrease
- Youth Development Institutions and Forestry Camps - \$7.8 million decrease

2012-13 General Fund Revenues

In the first seven 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 \$152.7 million above estimate.

	Estimated	Actual	\$ Difference	% Difference
Tax Revenue:	<i>(Dollars in Millions)</i>			
Corporation Taxes	\$ 1,316.3	\$ 1,583.5	\$ 267.2	20.3%
Consumption Taxes	6,271.0	6,067.4	- 203.6	-3.2%
Sales & Use – Non- Motor	4,720.9	4,598.2	-122.7	-2.6%
All Other	1,550.1	1,469.2	-80.9	-5.2%
Other Taxes	6,686.4	6,745.1	58.7	0.9%
PIT Withholding	4,972.0	4,984.8	12.8	0.3%
PIT Non-Withholding	985.4	1,048.8	63.4	6.4%
All Other	729.0	711.5	-17.5	-2.4%
Non-Tax Revenue	138.0	168.4	30.4	22%
Total	\$ 14,411.7	\$14,564.4	\$ 152.7	1.1%

General Fund Financial Statement

(Dollars in Millions)

	<u>2012-13</u> <u>Revised</u>	<u>2013-14</u> <u>Budget</u>
Beginning Balance	\$ 673	\$ 544
Revenue Estimate. (including revenue over official estimate)	28,822	29,204
Proposed Revenue Changes.	0	47
Refunds	(1,300)	(1,325)
Total Revenue	27,522	27,926
Prior-Year Lapses	100	0
Funds Available.	28,295	28,470
Expenditures	(27,761)	(28,440)
Current-Year Lapses	10	0
Total State Expenditures	(27,751)	(28,440)
Preliminary Balance	544	30
Transfer to the Rainy Day Fund	0	(7)
Ending Balance	\$ 544	\$ 23

Tax and Revenue Modifications

The 2013-14 budget proposes several tax and revenue modifications to the General Fund. In addition, the budget includes a multi-year plan to reduce the Corporate Net Income Tax beginning in tax year 2015. By 2025, this proposal will reduce the CNIT to 6.99 percent.

	2013-14 Estimated
Tax Revenue:	<i>(Dollars in Thousands)</i>
NOL Cap Increase \$3M to \$4M	\$ (11,401)
Corporate Loans Tax Repeal	(700)
CNI Sale Sourcing	7,000
Realty Transfer Tax Expansion	4,300
Personal Income Tax - Changes for Certain Pass Through Businesses	2,600
Tax Credit Repeals - Various	500
Non-Tax Revenue	
Redirection of Motor License Fund fines	29,500
Transfer from Race Horse Development Fund	15,000
Total	\$ 46,799

U.S. Economic Forecast for 2013-14

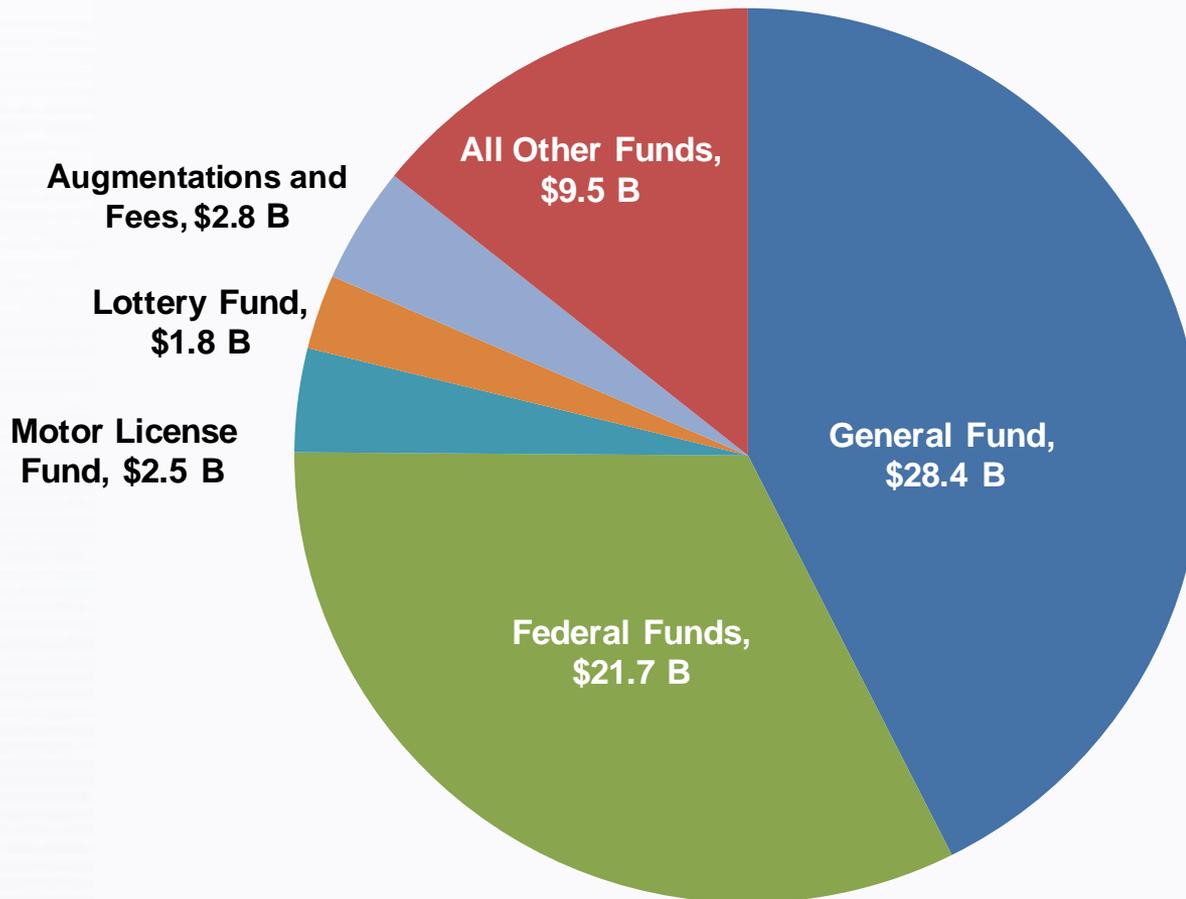
The U.S. economy continues to modestly recover from the Great Recession, however fairly subdued economic growth is forecast through at least the second quarter of 2014. While the underlying fundamentals of the economy are sound, political concerns out of Washington are likely dampening economic growth. Increased federal income tax rates, expired payroll tax reductions, lingering concerns regarding federal spending (sequestration) and the approaching federal debt limit are all likely impacting the economy.

Global Insight's Outlook for Fiscal Year 2013-14

Projected Growth in FY 2012-13 and FY 2013-14

	<u>FY 2012-13</u>	<u>FY 2013-14</u>
Real GDP	2.0%	2.1%
Consumer Expenditures	3.1%	3.4%
U.S. Wages & Salaries	3.0%	4.2%
U.S. Unemployment Rate	7.8%	7.4%

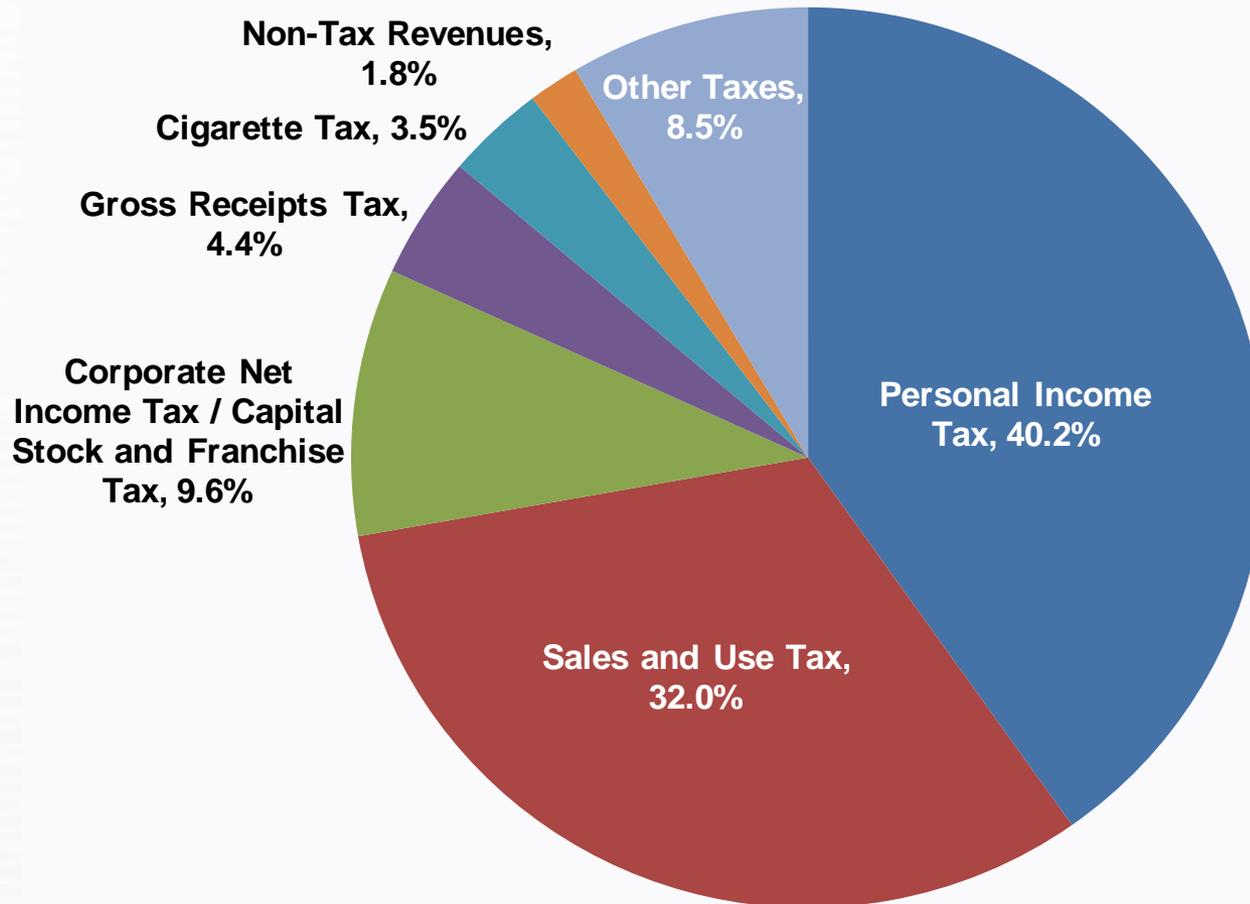
2013-14 Total Operating Budget



The total 2013-14 operating budget, including all commonwealth funds, is \$66.7 billion. The General Fund represents 43 percent of this amount.

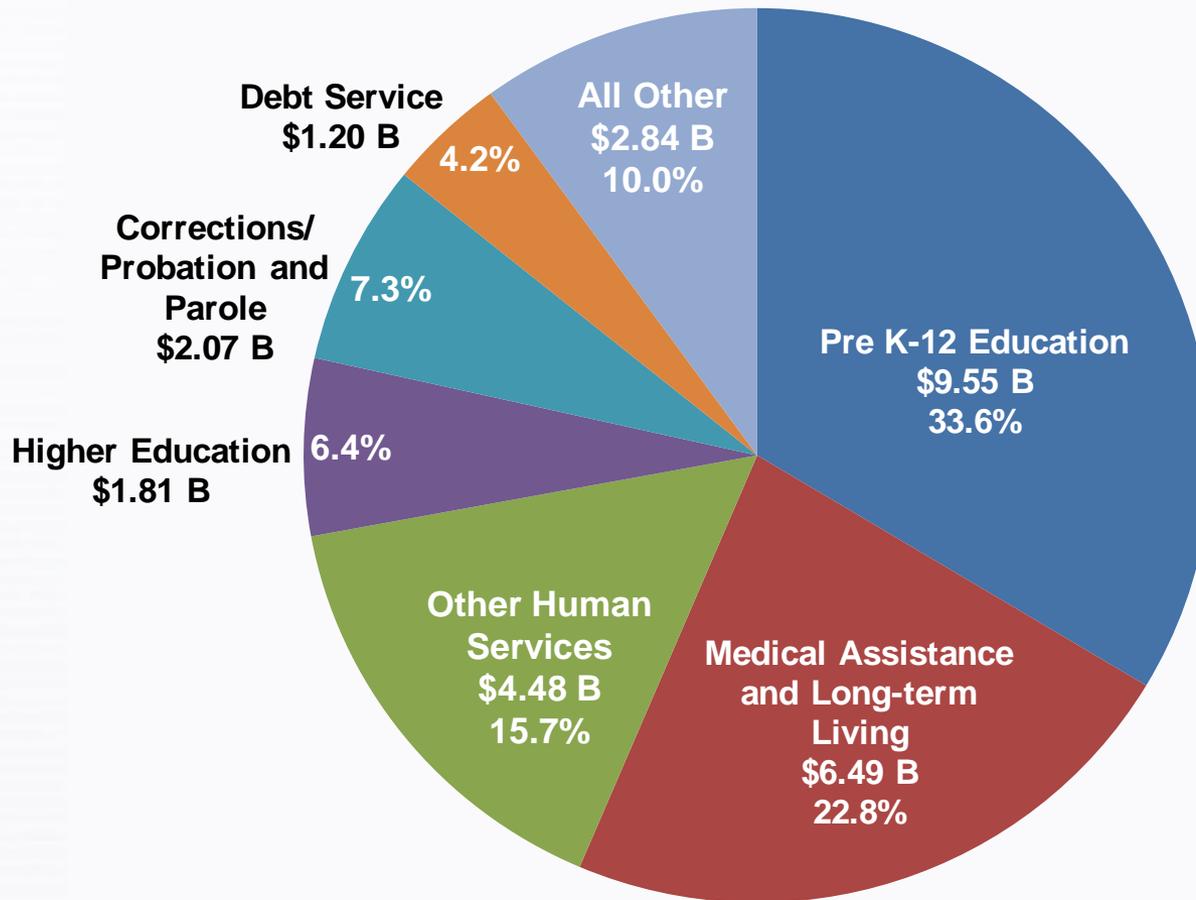
**Total:
\$66.7 Billion**

2013-14 General Fund Revenue Sources



Nearly three-quarters (72 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales and Use Tax.

2013-14 State General Fund Budget – \$28.4 Billion



Spending on Education, Human Service programs, Corrections and Debt Service comprises 90 percent of total General Fund obligations.

Reform and Reinvestment

Sell the state liquor system to invest in education, Modernize Pennsylvania's transportation infrastructure and Overhaul the state pension systems

Selling the State Liquor System

- **Divest of the retail and wholesale functions in a two-step process not taking more than four years**
 - 1,200 retail wine and spirits licenses auctioned
 - Wholesale licenses offered for exclusive sale of particular brands
- **The Plan**
 - End the 80-year old state monopoly
 - Get government out of the business of selling alcohol
 - Let Pennsylvanians enjoy the same convenience and selection that nearly every other American has today
 - Invest the \$1 billion in proceeds in our public schools via a new Passport for Learning Block Grant

Passport for Learning

- **\$1 Billion in proceeds will be used from the divestiture to fund the Passport for Learning Block Grant program for school districts, focusing on:**
 - **School Safety**
Training for administrators and educators, enhanced security measures and partnerships with local law enforcement.
 - **“Ready by 3” – early learning programs**
Grant funding that may be used for improvements to quality kindergarten programs aligned with the current academic standards that promote enhanced academic achievement in elementary reading and mathematics.
 - **Individualized learning**
Funding from this grant may be used for start-up costs related to implementing Competency Based Education with a focus on self-paced mastery of a customized learning plan based on student proficiency.
 - **STEM programs**
Enhanced student access to science, technology, engineering and mathematics programming in grades six to twelve.

Investing in Transportation Infrastructure

The budget proposes \$5.4 billion in funding over five years to address the needs of Pennsylvania's aging and fragile transportation infrastructure.

Proposed reforms include:

- Reduction of the flat Liquid Fuels Tax assessed at the pump by one cent in 2013-14 (starting July 1, 2013) and another reduction of one cent in 2014-15 (starting July 1, 2014). This will reduce the current Liquid Fuels Tax from 12 cents to 10 cents, a 17 percent reduction.
- Uncapping of the average wholesale price used to calculate the Oil Company Franchise Tax over five years – one-third uncapping on July 1, 2013, January 1, 2015 and January 1, 2017 (fully uncapped).
- Transition vehicle registration renewals to a biennial cycle – beginning on July 1, 2014.
- Transition driver license renewals to a six-year cycle – beginning on July 1, 2014.

Investing in Transportation Infrastructure

Investment Component*

Transportation Mode	Investment Year 1 (est.)	Investment Year 5 (est.)
State Roads and Bridges	\$300 million	\$1.2 billion
Public Transportation	\$40 million	\$250 million
Local Roads and Bridges	\$80 million	\$200 million
PA Turnpike Expansion Projects	\$30 million	\$85 million
Multi-Modal Fund	\$60 million	\$80 million
TOTAL	\$510 million	\$1.8 billion

*Based on the current wholesale value of gas.

Pension Realities

- **Rising Contribution Rates and Costs:** Rapid growth in employer contribution rates to pay the unfunded liabilities plus normal costs are driving steep increases in the state's pension contributions, growing nearly 3x in the next 4 years from \$1.5 billion to \$4.3 billion in FY 16-17.
- **Unavoidable Cuts:** Without reform, fully meeting pension contributions will require deep cuts in the General Fund budget to core programs and services.
- **District Pressures:** School districts are facing similar budget dynamics and need relief to avoid deep cuts in local school budgets or steep property tax increases.
- **Unfunded Liability:** Current plans are only 67.8 percent funded, with unfunded liabilities of \$41 billion growing to \$65 billion in just a few years, assuming market performance meets expectations with the risk fully on the taxpayers if it does not.
- **No Support for Tax Increases or Spending Cuts:** No support for either raising taxes to cover pension obligations or making the spending cuts necessary in core programs or services to fully meet pension obligations.

Pension Reform

- **New Employees**
 - Enrolled in a 401(a) defined contribution plan
- **Current Employees: Changes to Future Service Only**
 - Neutral Option 4 Withdrawal: modify future monthly pension payments for employees who choose to withdraw all their contributions upon termination or retirement
 - Compensation related adjustments to benefit calculations
 - Future pension benefits will be calculated with a lower multiplier
 - Current employees have the option to choose the higher multiplier through increased contributions
- **Tapered Pension Collars**
 - \$175 million in General Fund savings between SERS and PSERS
 - \$138 million in savings for school districts and other local education agencies
- **No Changes**
 - Current retiree benefits
 - Benefits already earned by current employees

Redesigning State Government

Fiscal Discipline and Limited, Efficient Government

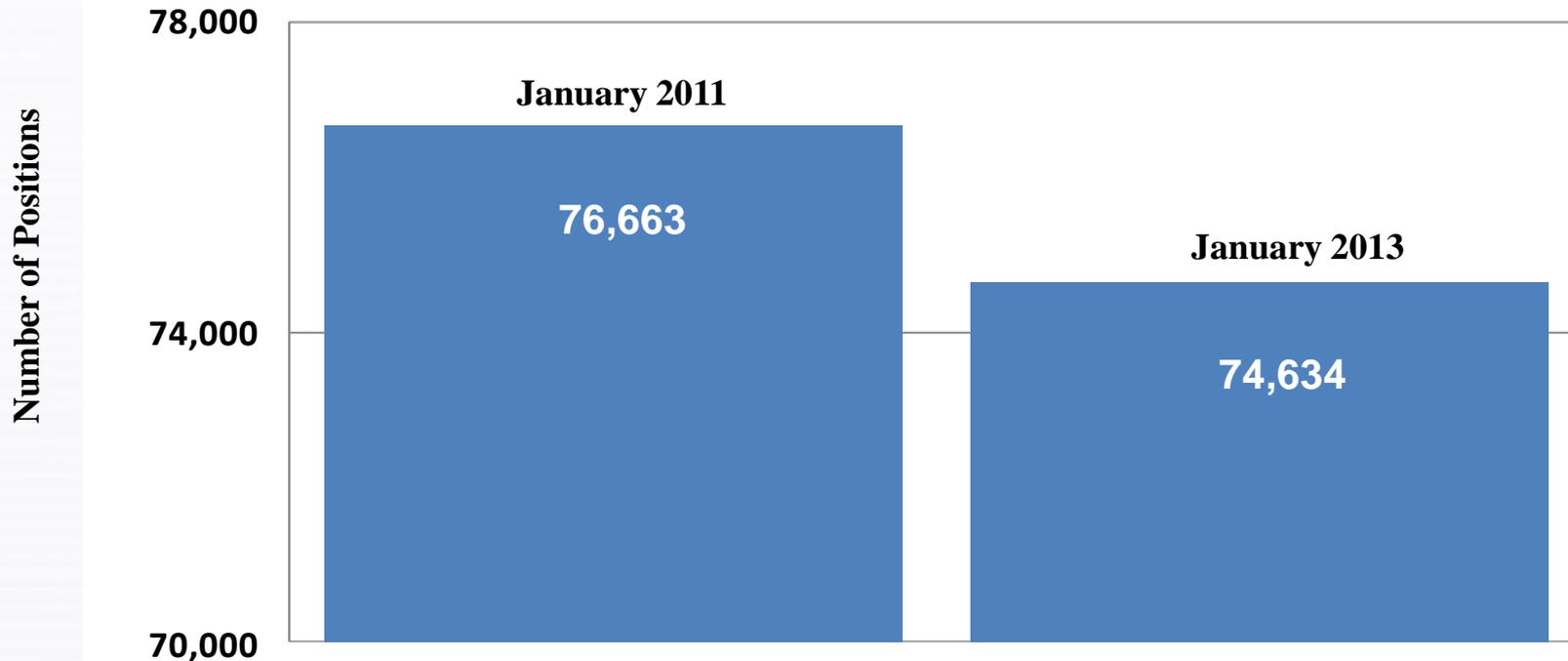
Fiscal Discipline in the 2013-14 Budget

- Governor Corbett's plan provides for a balanced budget that keeps spending in line with available revenues and does not raise taxes on Pennsylvania families and businesses.
- Spends \$28.4 billion – 2.4 percent increase over FY 2012-13.
- Continues reductions in administrative spending, now down a total of 6.3 percent since 2010.
- Eliminates more than 900 positions, including approximately 400 layoffs.
- Keeps most agency general operating budgets at level funding despite increases in salary and benefit costs.

Reducing Administrative Spending

Since Governor Corbett took office in January 2011, filled staffing levels have declined by 2,029 positions, or 2.6 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



Limited and Efficient Government

The 2013-14 budget continues to streamline government through mergers and consolidations of programs and agencies, or realignments for greater synergies.

- **Governor's Innovation Initiative**
 - 25 projects completed producing \$84 million in savings, cost avoidance and productivity gains. Over 160 initiatives in progress including streamlining print, imaging, and mail operations, vehicle fueling operations, and electronic grants processing.
- **Department of Revenue**
 - Numerous operational efficiencies generating \$2.4 million in savings.
- **Department of Banking/Securities Commission**
 - Merger reduced costs by \$747,000 in 2012-13 and is anticipated to produce an additional \$1.25 million in savings in 2013-14.

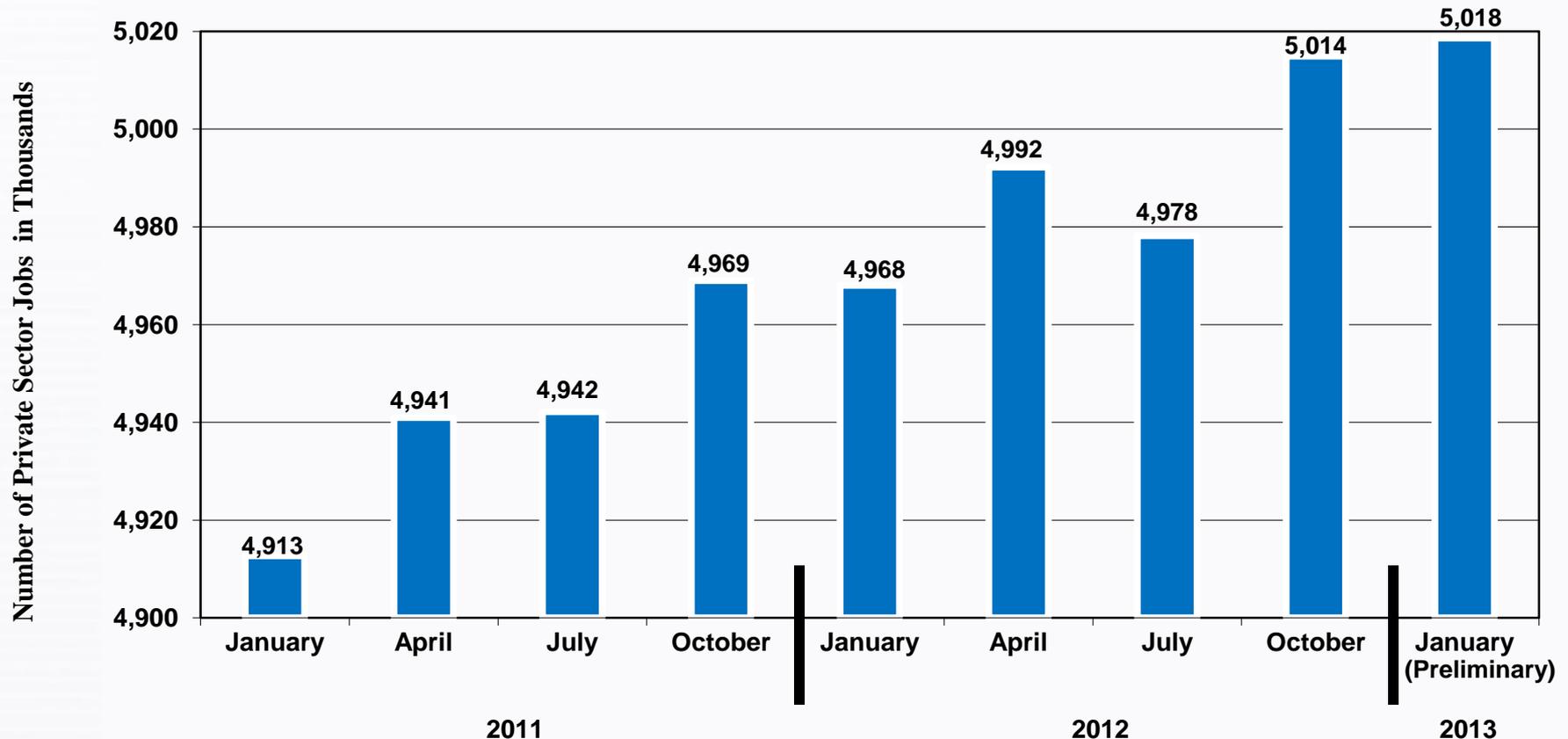
JOBSFirst PA and Economic Development

The Governor's top priority is to create an environment in which good, family-sustaining jobs can grow. This budget focuses on improving Pennsylvania's position in the world marketplace through business tax reforms and economic development investments to spur job creation and economic growth.

- **Eliminates the Capital Stock and Franchise Tax**
- **Net Operating Loss (NOL) Cap Increase**
 - Increase in NOL cap to \$5 million beginning with an increase from \$3 million to \$4 million in tax year 2014.
- **Corporate Net Income (CNI) Tax Reduction**
 - 10-year phase down of the CNI Tax beginning in 2015 to reduce tax to 6.99 percent by tax year 2025.
- **Job Creation/Retention Funding Increases**
 - PA First – \$10 million
 - Marketing to Attract Business – \$5 million
 - World Trade PA – \$2.4 million

Growing Jobs in Pennsylvania

Since the Governor took office, Pennsylvania has increased private sector jobs by approximately 105,900.



Education Innovation in Pennsylvania

Giving School Districts Tools and Flexibility To Improve Student Performance

Education Innovation in Pennsylvania

- **Increased Basic Education Funding**
 - \$5.5 billion for Basic Education Funding to support local school districts, the highest level of basic education funding in state history. Includes a \$90 million increase.
- **Passport for Learning Block Grant**
 - \$200 million for the Passport for Learning Block Grant to support school safety and security, “Ready by 3”, individualized learning, science, technology, engineering and mathematics (STEM) education in grades 6 through 12. First year of a \$1 billion, four-year grant program funded from proceeds from selling the state liquor system.
- **Mandate Relief**
 - Provides school districts the ability to apply to the Department of Education for a waiver from certain Public School Code provisions. Expanded and streamlined version of the Mandate Waiver program that was previously in effect from 2000 until 2010.
- **Competency-Based Learning**
 - Initiatives to support school districts in offering alternative pathways for students to fulfill course and graduation requirements.

Education Innovation in Pennsylvania

- **Investments in Early Childhood Education**
 - **Pre-K Counts** – an increase of \$4.5 million, or 5.4 percent, to serve 580 additional children in proven pre-kindergarten programs.
 - **Head Start Supplemental Assistance** – an increase of \$1.9 million, or 5.1 percent, to serve 210 additional children.
 - **Early Intervention** – an increase of \$5 million, or 2.3 percent to provide services to 1,500 additional children from ages 3 through 5.
- **Higher Education**
 - Maintains level funding for the State System of Higher Education, State-Related Universities, Community Colleges, as well as Thaddeus Stevens and Pennsylvania Colleges of Technology.
 - Maintains level funding for Grants to Students and PHEAA to supplement level funding of grants to students by \$75 million.

Human Services and Health Care

Helping Pennsylvanians Achieve Self-Sufficiency

Expanded Services for Older Pennsylvanians

\$5.7 billion in total funds to provide Long-Term Care services to persons with disabilities and older Pennsylvanians.

\$50 million Initial Investment from Lottery PMA

- **\$20 million** to provide home and community-based services to 5,400 individuals currently on the OPTIONS waiting list.
- **\$21 million** growth in MA Home and Community-Based Waiver program, including services for 1,550 older Pennsylvanians.
- **\$5 million** to increase support for the Area Agencies on Aging.
- **\$2 million** to provide attendant care services for 193 individuals.
- **\$2 million** to modernize senior center facilities and programs.

Expanded Services for Individuals with Disabilities

- **\$18.5 million** to provide home and community-based services for 1,080 individuals with intellectual disabilities, including 380 people on the waiting list and 700 students graduating from Special Education.
- **\$15.8 million** to provide home and community-based services for 1,280 additional individuals with disabilities through several Medicaid waiver programs.
- **\$4.7 million** to provide home and community-based services for 90 individuals currently residing in state mental hospitals.
- **\$4.1 million** to provide attendant care services for 400 additional individuals with disabilities.
- **\$1.4 million** to provide home and community-based services for 100 individuals currently residing in state intellectual disabilities centers.
- **\$1.5 million** to provide home and community based services to 118 adults with autism spectrum disorders.

Increased Access to Health Care

- **\$8.5 million** to provide Children's Health Insurance program coverage for an additional 9,330 children anticipated to be enrolled through expanded outreach efforts.
- **\$4 million** to provide community-based health care subsidies for health care clinics serving the uninsured or in underserved areas of the state.
- **\$1 million** to provide an additional 24 awards of loan repayment to health care professionals committed to working in underserved areas of the state and slots in primary care at hospitals.
- **\$3.4 million savings** from modernizing the state health care centers through increased staff mobility into underserved areas and greater use of technology.

Human Services Reforms

- **Expand Human Services Block Grant** from 20-county pilot to statewide by allowing additional counties to participate in the block grant on a voluntary basis.
- Reinvest **\$7.1 million** in administrative savings from the consolidation of the child care information service agencies to provide subsidized child care for 1,400 additional children and families.
- **\$3 million** increase for Rising Stars initiative to improve the quality of child care services.
- **\$1.3 million** increase to expand Domestic Violence programs and services.
- **\$700,000** increase to expand Rape Crisis programs and services.
- **\$8.3 million** savings from implementing a cost sharing requirement for families with children enrolled in the Medicaid Special Needs program.
- **\$12.7 million** in savings from the closure of the New Castle Youth Development Center, with \$10 million to be reinvested through the Juvenile Justice Reinvestment Initiative.

Juvenile Justice Reinvestment

- **\$10 million saved from the closure of the New Castle Youth Development Center will be reinvested in evidence-based violence prevention and intervention programs with a goal of reducing recidivism through risk assessment and targeted interventions for high-risk juvenile offenders:**
 - **\$5 million** to the Juvenile Court Judges' Commission to support the statewide implementation of the Juvenile Justice System Enhancement Strategy.
 - **\$4 million** for the Pennsylvania Commission on Crime and Delinquency to support evidence-based delinquency and violence prevention and intervention programs.
 - **\$1 million** in 2013-14 to the Bureau of Juvenile Justice Services in the Department of Public Welfare to sustain Pennsylvania's Academic and Career/Technical Training (PACTT) Alliance initiative.

Criminal Justice and Public Safety Enhancements

Ensuring the Safety of Pennsylvania's Citizens and Communities

Criminal Justice and Enhanced Public Safety

Pennsylvania State Police

- \$14.7 million for three new cadet classes.
- \$6 million for an additional 90 new civilian police communication operators, which puts 90 troopers back on patrol.

Department of Corrections

- Closure of SCIs Cresson and Greensburg and opening of SCI Benner Township replaces older system capacity with new design capacity that is safer for staff and inmates and will result in ongoing annual cost savings, beginning with \$22 million in 2013-14.

Board of Probation and Parole

- \$2.6 million for 35 additional parole agents and other staff to maintain caseload ratios, implement the Justice Reinvestment Initiative, and increase victim assistance services.

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