

Commonwealth of Pennsylvania

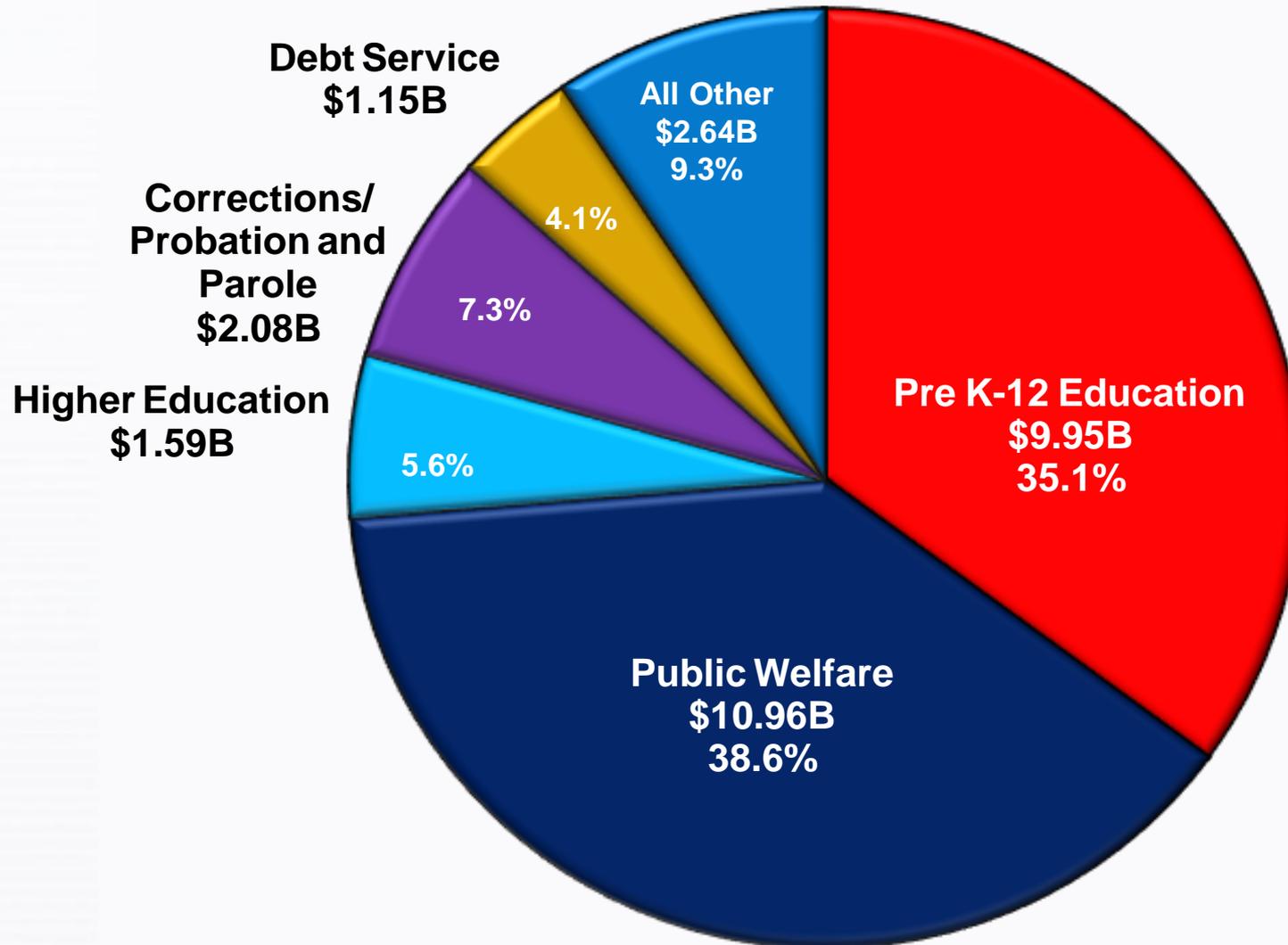
2013-14 Mid-Year Budget Briefing

Tom Corbett
Governor

Charles B. Zogby
Secretary of the Budget

December 18, 2013

2013-14 State General Fund Budget - \$28.37B



2013-14 Enacted Budget Highlights

The 2013-14 budget is balanced with no tax increases and refocuses the investment of tax dollars in the core functions of government.

- The 2013-14 enacted General Fund budget is \$28.37 billion – an increase of \$645 million, or 2.3 percent, from 2012-13.
- The budget continues the phase out of the Capital Stock and Franchise Tax, eliminates the inheritance tax on small businesses, and provides an \$8.3 million increase for PA First – the commonwealth’s top job creation and business attraction/relocation tool.
- For the third consecutive year, the budget increases funding for education and early childhood development, including state dollars for Basic Education Funding at the highest level in Pennsylvania history.
- The budget reaffirms the governor’s commitment to helping individuals with intellectual and physical disabilities, and provides critical supports for senior citizens, children, and low-income families.

Post-Enactment Developments

Federal Government Shutdown

Governor Corbett instructed agencies to continue the operation of essential programs, including healthcare, public assistance and public safety, while closely monitoring both the commonwealth's cash position and spending during the 16-day federal government shutdown. Pennsylvania's 2013-14 enacted budget relies on more than \$20 billion in federal government funding. Economists project that the shutdown may reduce fourth quarter Gross Domestic Product (GDP) growth by 0.2 to 0.6 percentage points.

- Commonwealth agencies developed contingency plans in case of a protracted federal shutdown.
- No commonwealth employees were furloughed.
- Federal programs continued without interruption.
- An agreement on a broad federal budget was announced on December 10, 2013. Congress needs to enact appropriation bills for FY 2014.

Tobacco Settlement Fund

In September 2013, an arbitration panel hearing the non-participating manufacturer (NPM) adjustment dispute with respect to MSA payments received in 2004 issued a decision adverse to the commonwealth. The Attorney General has challenged the decision and proceedings are pending before the Philadelphia Court of Common Pleas. The court is not expected to rule before March 2014 at the earliest. If the arbitrators' decision stands, the commonwealth's MSA payment in April 2014 will be reduced by approximately \$180 million.

The April 2014 MSA payment is used to fund 2013-14 appropriations causing immediate and significant impacts on programs supported through the Tobacco Settlement Fund. Funds for some programs have been placed in budgetary reserve to preserve critical entitlement programs, such as Long-Term Care, Medical Assistance for Worker's with Disabilities and Home and Community-Based Care.

Funds Frozen:

- Tobacco Use Prevention & Cessation: \$7.2 million
- Health Research: \$38.6 million
- Health Research – Cancer Institute: \$3.1 million
- Uncompensated Care: \$25.8 million
- PACENET Expansion: \$25.2 million
- Life Sciences Greenhouses: \$3.0 million

Other Developments

City of Philadelphia

As provided in Act 71 of 2013, the commonwealth provided \$45 million to the City of Philadelphia after a determination by the Secretary of Education that the School District of Philadelphia had begun implementation of reforms that will provide for fiscal stability, educational improvement and operational control.

Summer 2013 Storm Disaster Relief

Governor Corbett authorized \$5 million to help Pennsylvania recover from summer storms that caused widespread flooding, damaged homes and businesses and cut power to tens of thousands in Centre, Clearfield, Clinton, Crawford, Fayette, Huntingdon, Jefferson, Lawrence, Venango and Wayne counties.

Small Games of Chance (Act 90 of 2013)

Governor Corbett signed legislation authorizing taverns to conduct games of chance and providing more funding for charities and host municipalities.

Transportation

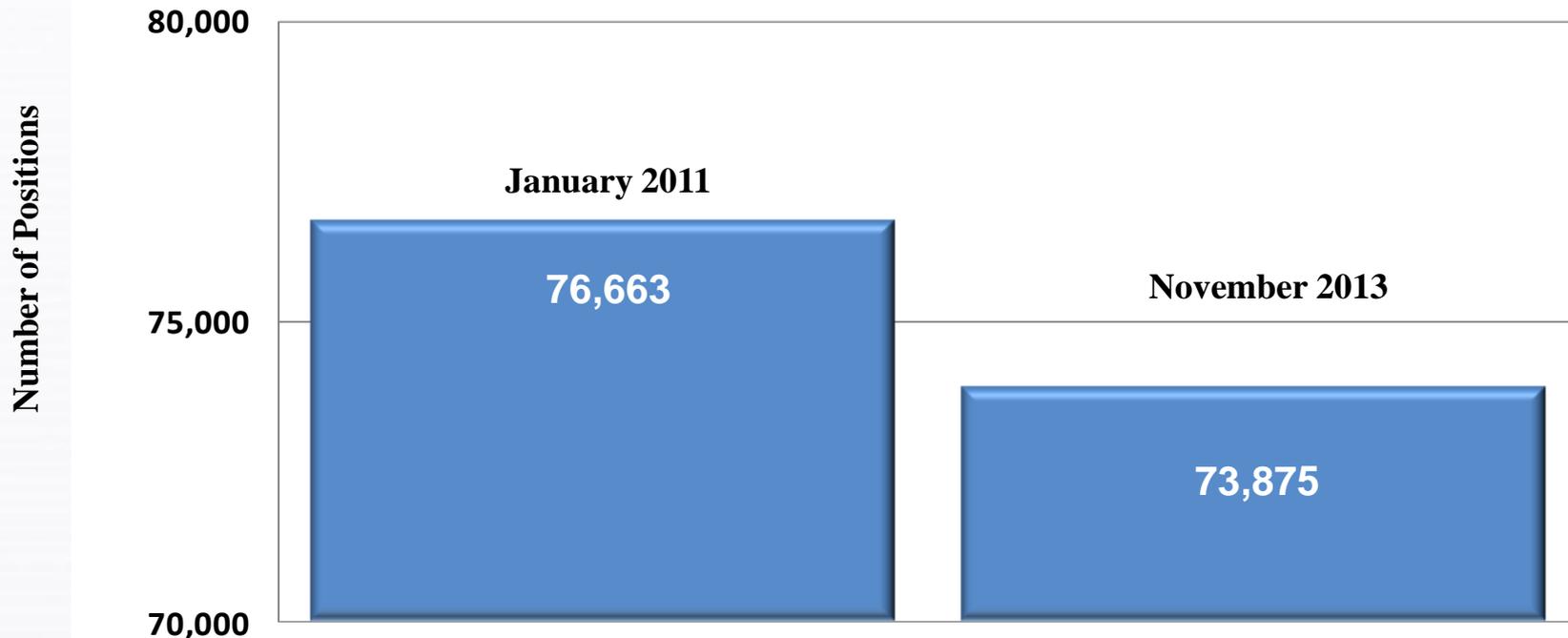
On November 25, 2013, the Governor signed into law HB 1060 (Act 89 of 2013). This bipartisan agreement will keep Pennsylvania safe and economically competitive by investing an additional \$7.4 billion into the state's roads, bridges and transit by the fifth year of the plan and providing funding for transit systems across the state.

	<i>(Dollars in Thousands)</i>					
	2013-14	2014-15	2015-16	2016-17	2017-18	Five- Year Total
Motor License Fund:						
State Highways & Bridges	\$ 188,465	\$ 549,527	\$ 804,628	\$ 1,007,412	\$ 1,270,422	\$ 3,820,454
Municipal Payments	27,838	105,946	148,355	176,248	207,242	665,629
Local Bridge	7,000	13,000	20,000	21,000	30,291	91,291
Pennsylvania Turnpike	12,641	43,161	61,090	71,575	86,192	274,659
Boat Fund Tax Refund	3,250	8,200	8,200	9,540	9,540	38,730
Dirt & Gravel Roads	-	30,000	30,000	30,000	30,000	120,000
County/Forestry Bridges	1,806	6,166	8,727	10,225	12,313	39,237
Multimodal Fund	30,000	97,000	138,000	138,000	144,000	547,000
Transit	\$ 60,000	\$ 355,000	\$ 441,000	\$ 442,000	\$ 497,000	\$ 1,795,000
Total Additional Funding	\$ 331,000	\$ 1,208,000	\$ 1,660,000	\$ 1,906,000	\$ 2,287,000	\$ 7,392,000

Reducing Administrative Spending

Since Governor Corbett took office in January 2011, filled staffing levels have declined by 2,788 positions, or 3.6 percent. Additionally, the Corbett Administration has implemented significant productivity and performance improvement reforms to enhance program accountability and reduce costs by approximately \$437 million.

Reducing the Size of the Commonwealth's Workforce



Updates to U.S. Economic Forecasts

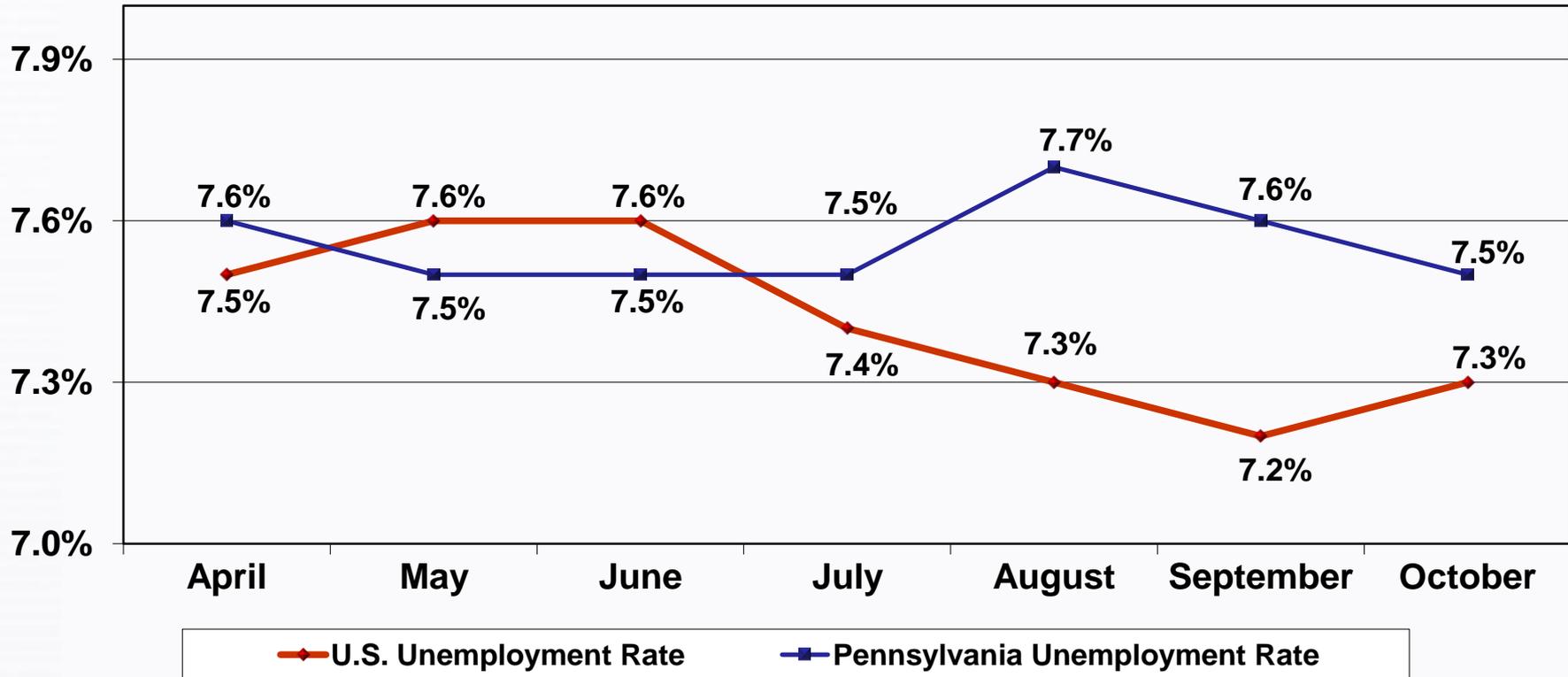
The 2013-14 General Fund budget adopted in June 2013 was based on economic forecasts available at that time. Since then, the only forecasted change has been a decrease in U.S. Wages & Salaries for 2013 and 2014.

Global Insight's Outlook for Fiscal Year 2013-14 *Changes from June to November*

	<u>June 2013</u>	<u>November 2013</u>
Real GDP	2.1%	2.1%
Consumer Expenditures	3.2%	3.2%
U.S. Wages & Salaries	3.7%	3.2%

U.S. and PA Jobless Rates, 2013

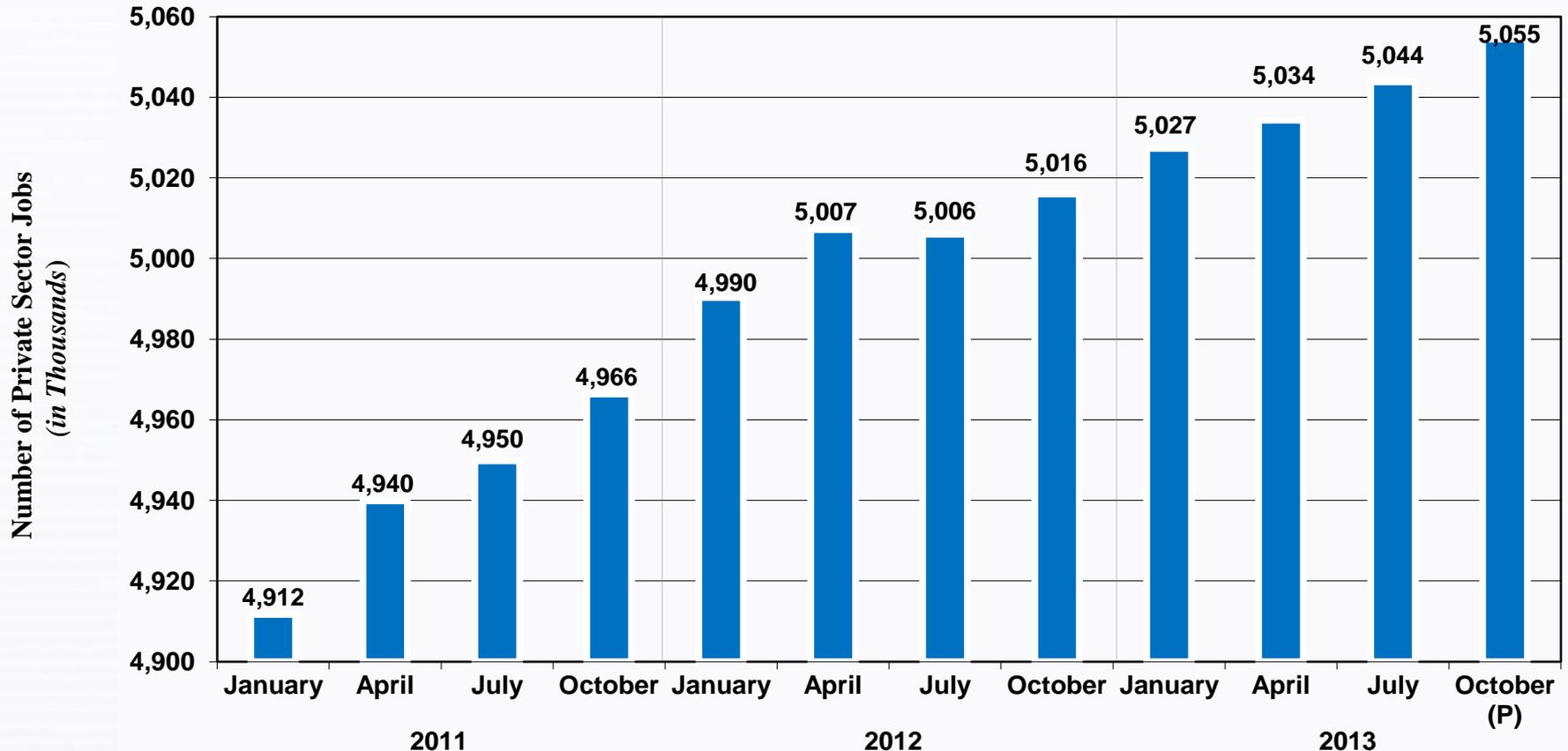
Pennsylvania's unemployment rate is slightly above the U.S. rate. The U.S. unemployment rate decreased to 7.0% in November. Pennsylvania's November data will be available December 20th.



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

Growing Jobs in Pennsylvania

Since Governor Corbett took office, Pennsylvania has increased private sector jobs by nearly 143,000.



2013-14 General Fund Revenues

In the first five months of 2013-14, Corporation and Consumption taxes are slightly above estimate, while Non-Tax and Personal Income (Withholding) Tax revenue are below estimates. Revenue collections are \$42.6 million above estimate.

	Estimated	Actual	\$ Difference	% Difference
Tax Revenue:	<i>(Dollars in Millions)</i>			
Corporation Taxes	\$ 785.1	\$ 800.6	\$ 15.5	1.97%
Consumption Taxes	4,365.9	4,381.1	15.2	0.35%
Sales & Use – Non- Motor	3,792.6	3,808.0	15.4	0.41%
All Other	573.3	573.1	-0.2	-0.03%
Other Taxes	4,620.1	4,635.1	15.0	0.32%
PIT Withholding	3,516.8	3,503.0	-13.8	- 0.39%
PIT Non-Withholding	558.0	566.4	8.4	1.51%
All Other	545.3	565.7	20.4	3.74%
Non-Tax Revenue	80.5	77.4	-3.1	-3.85%
Total	\$ 9,851.6	\$ 9,894.2	\$ 42.6	0.43%

General Fund Financial Statement

(Dollars in Millions)

	<u>2013-14</u> <u>Enacted</u>	<u>2013-14</u> <u>Revised</u>
Beginning Balance	\$ 541	\$ 541
Beginning Balance Adjustment	0	5
Revenue Estimate	29,116	29,116
Refunds	(1,275)	(1,275)
Total Revenue	<u>27,841</u>	<u>27,841</u>
Legislative Lapses*	1	1
Prior-Year Lapses**	0	195
Funds Available	<u>28,383</u>	<u>28,583</u>
Enacted Expenditures	(28,376)	(28,376)
Transfer to City of Philadelphia	0	(45)
Summer 2013 Storm Disaster Relief	0	(5)
Current-Year Lapses	0	75
Total Expenditures	<u>(28,376)</u>	<u>(28,351)</u>
Preliminary Balance	7	232
Transfer to the Rainy Day Fund	(2)	0
Ending Balance	<u>\$ 5</u>	<u>\$ 232</u>

*Legislative lapses are projected to be \$1.5 million.

** Prior-year lapses include \$45 million lapsed to date.

2014-15 Budget Planning

2014-15 Budget Development

- Governor Corbett instructed agencies to maintain level funding and indicated that no General Fund dollars will be used to replace reduced federal funds.
- Level funding equates to an eight percent cut due to personnel cost increases for the typical agency operating budget.
- Supplemental appropriations will be needed for the Department of Military and Veteran Affairs for Paralyzed Veterans program and Department of Public Welfare for human services programs.

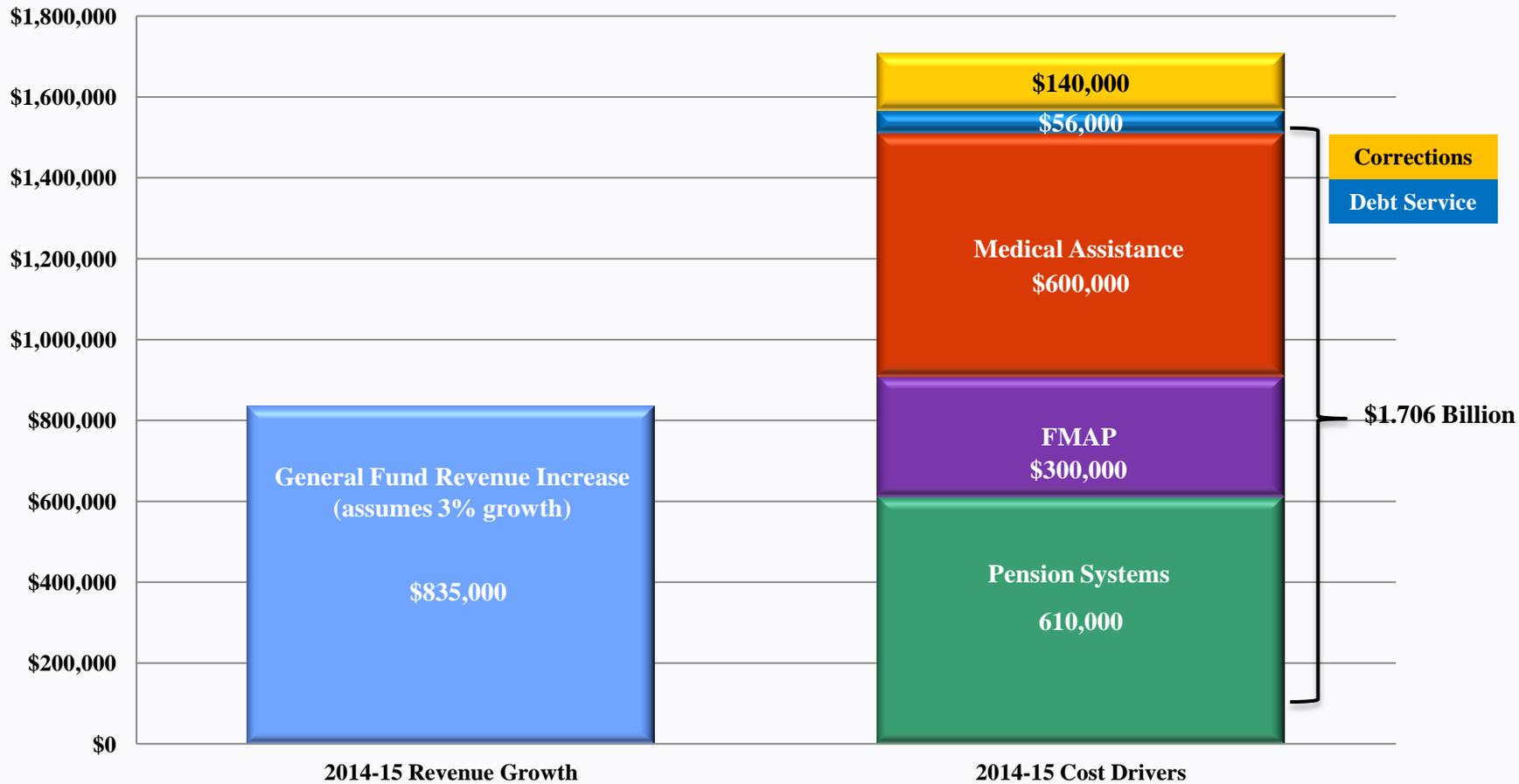
Cost Growth for Average-Salaried Employee (AFSCME plus Management)

	<u>2013-14</u>	<u>2014-15</u>	<u>Year-over-Year Change</u>	
			\$	%
Personnel Costs:				
Salary	\$49,554	\$51,939	\$2,385	4.81%
Benefits -				
Active Health (PEBTF)	\$11,093	\$11,876	\$783	7.1%
Retiree Health	7,961	8,874	913	11.5%
Pension	7,493	10,383	2,890	38.6%
Other	5,940	6,272	332	5.6%
Benefits Subtotal	\$32,487	\$37,405	\$4,918	15.1%
Total Personnel Costs	\$82,041	\$89,344	\$7,303	8.9%
Benefits as a percent of salary	65.6%	72.0%		

Challenges Ahead for the 2014-15 Budget

- Addressing pension cost growth of \$610 million. (\$500 million for school employees' retirement and \$110 million for state employees' retirement that agencies must absorb).
- Managing growth in welfare spending in light of continued health care cost inflation and reduced FMAP (more than \$300 million).
- Controlling the growth of corrections costs.
- Monitoring the federal budget and debt ceiling negotiations and the impact on federal funds.

Cost Drivers in the 2014-15 Budget (in Thousands)



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