



COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF THE GOVERNOR  
HARRISBURG

THE GOVERNOR

FEBRUARY 3, 1998

To my fellow Pennsylvanians:

Pursuant to Article VIII Section 12 of the Constitution of Pennsylvania, and Section 613 of the Administrative Code of 1929 (71 P.S. Section 233), I am transmitting to your representatives in the General Assembly my proposed State budget for fiscal year 1998-1999.

I am proud to report to you that the state of the Commonwealth is good. More people are working in Pennsylvania than ever before. Since my Administration began in January 1995, some 230,000 additional jobs have been created. Our annual rate of job growth — ranked 45th in the nation just three years ago — has leapfrogged all the way to 17th. We have re-established Pennsylvania as an emerging leader in high technology and advanced manufacturing, and we won't stop until we're No. 1.

We have cut taxes by a cumulative total of more than \$2 billion and reduced the cost of doing business in Pennsylvania by a cumulative total of more than \$3 billion. We have increased the State's Rainy Day Fund — our savings account to avoid future tax increases — from \$66 million to over \$500 million. And our bond rating has been upgraded by two Wall Street rating agencies.

We have invested more money in our schools, and created new opportunities through the enactment of charter schools. And, through our Project Link to Learn, we are investing more than \$125 million in education technology to make computers as commonplace as chalkboards in our schools.

We have become a national leader in electric competition, producing lower electric bills for thousands of Pennsylvanians. And our land-recycling program is turning abandoned industrial sites into job-generating properties, and has been recognized as a national model.

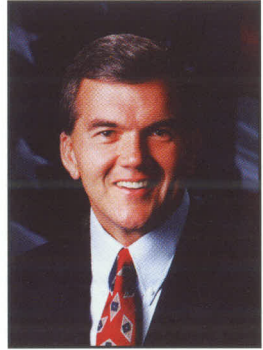
Yes, the state of the Commonwealth is good indeed. But we cannot be content. In my view, Pennsylvania deserves the most jobs, the best schools, the safest streets. This budget seeks to take the next steps to achieve those goals.

For the second straight year, the budget seeks a personal income-tax cut for working families. This year's proposal will eliminate entirely the personal income tax for a family of four with an income of \$25,000 a year, saving them \$700 a year. To further help working families, we will invest significantly more money in children's health insurance and child care.

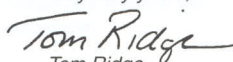
We will continue to cut employer taxes to create jobs, and we will take the next steps to further enhance Pennsylvania's status as a leader in high technology — because technology holds the greatest potential for high-paying, family-sustaining jobs. And because we know education is the key to good jobs for our young people, we will make record investments in public schools and public libraries, and then measure how our schools and students perform, through new, rigorous academic standards.

We will continue our crackdown on crime, while making new investments in crime prevention. And we will build on last year's Project for Community Building with another innovative community-development initiative — the Keystone Opportunity Zone.

This budget will take Pennsylvania to the doorstep of the 21st Century. We will enter the new millennium as a leader among states, and a competitor among nations.



Very truly yours,

  
Tom Ridge  
Governor

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1998-99  
BUDGET IN BRIEF

P E N N S Y L V A N I A

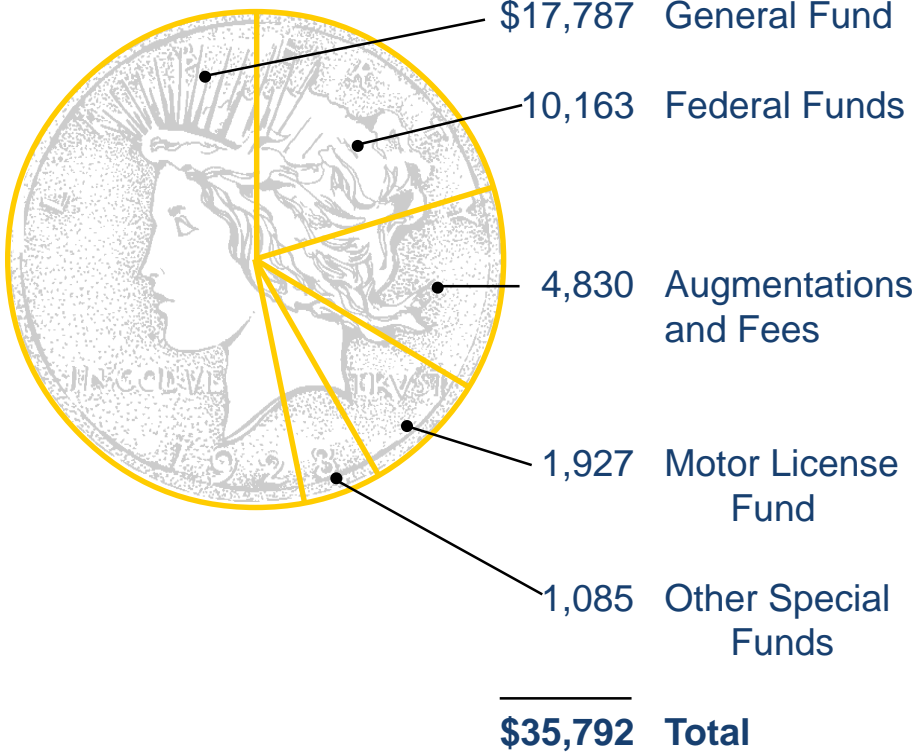


COMMONWEALTH  
BUDGET

# 1998-99 Total Recommended Budget

(All Funds)\*

Dollars in Millions



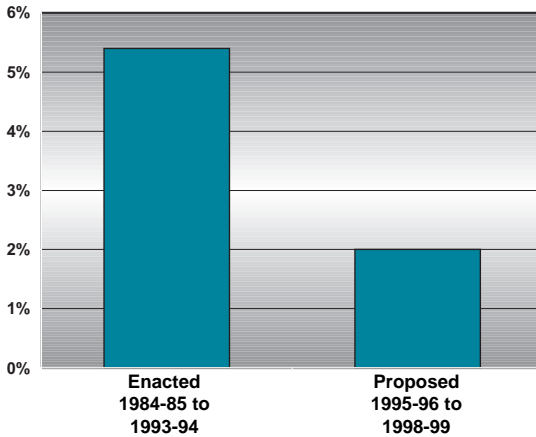
*The budget submitted by the Governor to the General Assembly includes funds from the five sources shown here and totals \$35.8 billion.*

\* Operating only; excludes capital.

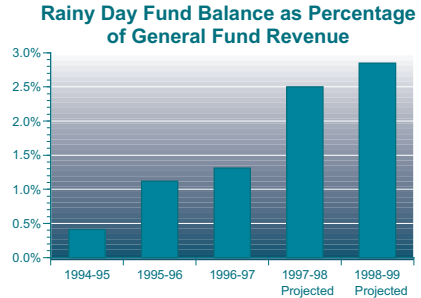
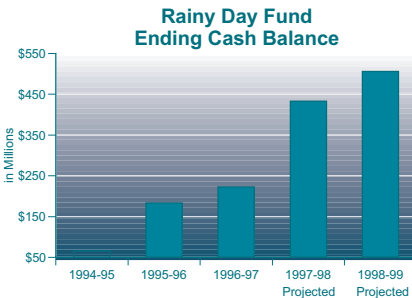
# 1998-99 GOVERNOR'S RECOMMENDED BUDGET

Governor Ridge's 1998-99 Budget continues his four year record of tax cuts and fiscal discipline with responsible spending.

- The proposed 1998-99 General Fund Budget is \$17.8 billion, an increase of \$518 million or 3 percent. Governor Ridge's four budgets have proposed an average spending growth of 2.0 percent. The average growth in the enacted budgets during the previous ten-year period was 5.4 percent.



- Over \$128 million in tax reductions are proposed in 1998-99 to help working families and to stimulate job creation and retention.
- With the transfer at the end of 1998-99, the reserve balance in the Commonwealth's Rainy Day Fund will exceed \$500 million, more than sevenfold the balance in 1994-95.



# Helping Working Families and Creating Jobs Through Tax Cuts

*The 1998-99 Budget recommends the following tax relief proposals for individuals and employers.*

Millions

- **Personal Income Tax:**

**Expand Tax Forgiveness** ..... \$ -54.1

The eligibility income limit for each claimant and any dependents to qualify for tax forgiveness under the special tax provisions is proposed to be increased respectively from \$6,300 to \$6,500 and from \$4,000 to \$6,000 each, effective January 1, 1998. A qualifying family of four with two jointly filing claimants and two dependents will owe no tax on taxable income up to \$25,000. The nine income brackets used to determine partial forgiveness are proposed to be increased from \$100 to \$250 each. An estimated 367,000 individuals will benefit from this tax cut.
  
  - **Capital Stock and Franchise Tax:**

**Reduce Tax Rate** ..... -46.2

The existing 12.75 mill tax rate is proposed to be reduced by 0.5 mills to 12.25 mills effective January 1, 1998.
  
  - **Corporate Net Income Tax:**

**Extend Net Operating Loss Recovery Period** ..... -17.8

The period of time over which deductions for net operating losses may be taken is proposed to be increased from three (3) years to ten (10) years following the loss. The change is proposed to be phased-in starting with tax years beginning on and after January 1, 1998.
  
  - **Job Creation Tax Credit** ..... -5.0

The current \$15 million annual cap on credits is proposed to be increased to \$20 million, effective July 1, 1998.
  
  - **Keystone Opportunity Zones** ..... -5.0

Twelve geographic areas in economically distressed urban and rural communities are proposed to be designated as tax-free or virtually tax-free zones for a specific period of time.
- 
- TOTAL PROPOSED TAX REDUCTIONS ..... \$ -128.1

## RETAINING AND CREATING JOBS

*The goal of this program is to retain and create family-sustaining jobs through tax cuts; provision of capital, technology, marketing and support services to employers; and provision of support and guidance to communities for their development and economic growth.*

*The 1998-99 Budget includes the following program changes and funding amounts in pursuit of this program's goal.*

### **STRENGTHENING THE COMMONWEALTH'S JOB CLIMATE**

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#### **TAX CUTS FOR JOBS**

- The Capital Stock and Franchise Tax rate will be reduced by one-half mill to 12.25 mills per dollar of capital stock value. The cut will lower the tax bill of approximately 50,000 businesses for what is the most uncompetitive state tax on business. Currently, Pennsylvania's capital stock and franchise tax rate is the highest in the nation. The tax is due even if a business has a loss, making this tax particularly burdensome to job creating firms.
- Net operating losses experienced by corporations in a tax year will, after a transition period, be able to be deducted from profits in up to ten (10) subsequent years for Corporate Net Income Tax purposes. The current maximum period for deducting net operating losses is three (3) years and is the most restrictive of any of the forty-six states that permit a net operating loss deduction. The current annual cap on net operating loss deductions of \$1 million is being retained. Expansion of the net operating loss particularly benefits start-up and high technology companies with long product development times.
- An expansion of the Job Creation Tax Credit will raise the annual amount available for such credits by \$5 million, to \$20 million. In 1996-97, its first year of availability, the credit was used by approximately 80 companies. Approximately 13,000 jobs will be created in Pennsylvania through the tax credits approved to date.



## **IMPROVING PENNSYLVANIA'S EFFORTS TO EXPAND JOBS**

- \$39.7 million in General Fund monies to be transferred into the Ben Franklin / IRC Fund to assist in implementing Technology 21 recommendations.
  - \$4 million to stimulate technology commercialization among Pennsylvania universities through development of networks, expanded internships and mentoring programs and to establish "Tech Communities" to provide interactive test beds for traditional and futuristic information technology products.
- 
- \$2 million of Ben Franklin/Industrial Resource Center Funds will be directed towards the development of a Pre-Venture Seed Fund.
  - \$12.5 million for the Small Business First Fund, including \$10 million to expand loan programs, and \$2.5 million to add the new category of Pollution Prevention Loans.
  - \$1.5 million to expand Team PA's business calling program and establish an Entrepreneurial Support Network in each region for potential entrepreneurs.
  - \$10 million over three years in State funds will leverage public and private funds to establish a \$50 - \$70 million Catalyst Stage Fund, monitored by Team PA to provide venture capital financing to companies ready for accelerated growth.
  - \$5 million increase for expansion of the Infrastructure Development Program which offers grants and loans to those who prepare sites for business use and to enhance the Commonwealth's national image as a positive location for growth.
  - \$1 million infusion from the General Fund to the Machinery and Equipment Loan Fund in order to provide additional low-interest machinery and equipment financing to Pennsylvania businesses, particularly for technologically advanced equipment.
  - \$200,000 for child care planning activities for small businesses.





































## Services to Older Pennsylvanians

- \$148 million from the General Fund and Lottery Fund to maintain transportation programs that will provide almost 51.6 million free and 7 million shared rides.
- \$23 million increase to continue expanding pharmaceutical assistance to 287,390 older Pennsylvanians.
- \$6.7 million increase in State funds to continue the PENNCARE program for Older Pennsylvanians.
- \$4 million to continue improvements to community senior centers.
- \$3.9 million increase in funds to expand the availability of Medical Assistance community-based alternatives to nursing home care for 1,400 older Pennsylvanians Statewide.
- \$1.1 million to continue placing residents at the 236 bed health care facility for military veterans in southwestern Pennsylvania.



# TRANSPORTATION

To provide an intermodal system which meets the needs of citizens, commerce and industry for the fast, efficient and safe movement of individuals and cargo within the Commonwealth, and to link them with national and international systems.

The 1998-99 Budget recommends the following program changes and funding amounts in pursuit of this program's goal.

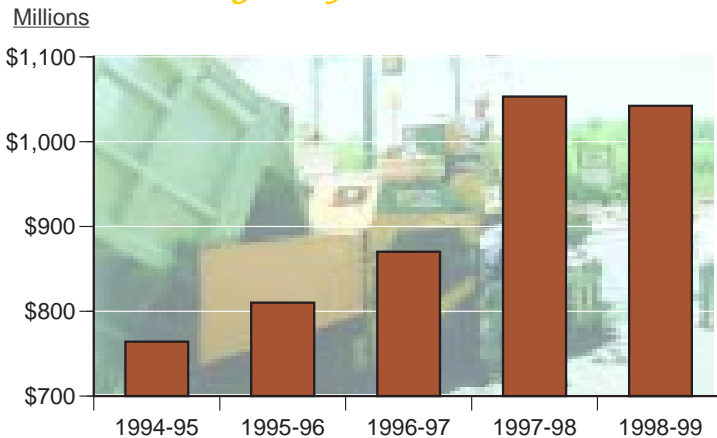
## Transportation Administration

- \$35 million for advanced maintenance technologies and more efficient transportation systems.

## State Highway and Bridge Maintenance

- \$1.042 billion, for the maintenance of the Commonwealth's bridges and highways.

### *Highway Maintenance*

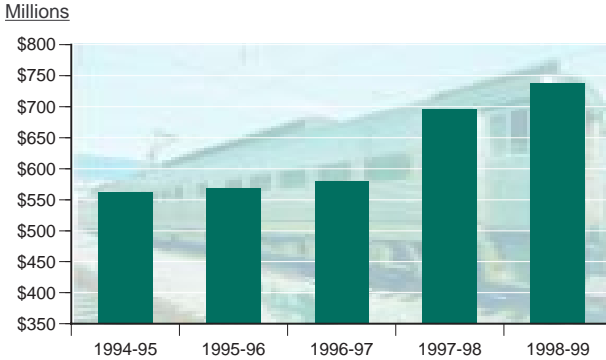


- \$260,000 to expand the operating hours of all Commonwealth Welcome Centers.

## Mass Transportation

- \$737 million for operating and capital assistance to mass transit agencies.

### *Mass Transit*



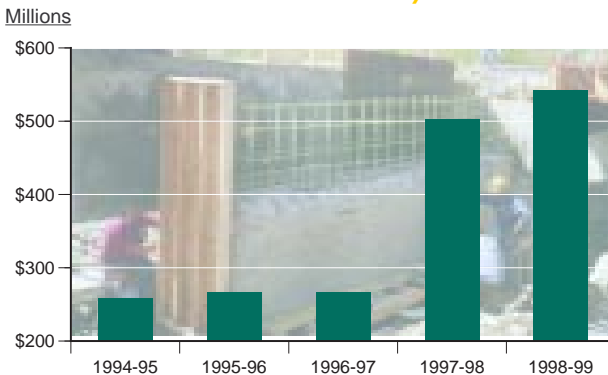
## Intercity Rail and Bus Transportation

- \$8 million for rail freight assistance.
- \$1.9 million to subsidize intercity rail and bus transportation.

## State Highway and Bridge Construction

- \$542 million for new construction and major repairs of highways and bridges, a \$40 million (8%) increase over the current year.

### *Construction Expenditures*



## **Air Transportation**

- \$6.8 million to improve public airports.



## **Local Road Maintenance and Construction Payments**

- \$281 million to municipal governments for local road maintenance and construction.



## **Safety Administration and Licensing**

- \$1.4 million for an enhanced titling and registration system.

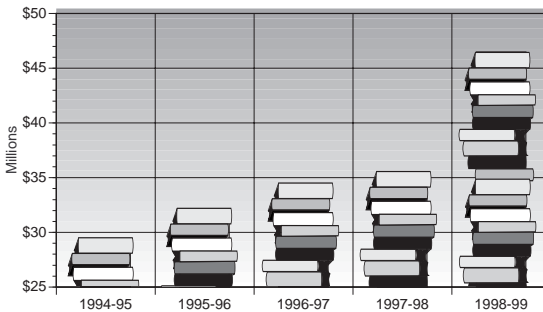
## RECREATION AND CULTURAL ENRICHMENT

To provide sufficient opportunities for individual and group recreation and cultural growth.

The 1998-99 Budget recommends the following program changes and funding amounts in pursuit of this program's goal.

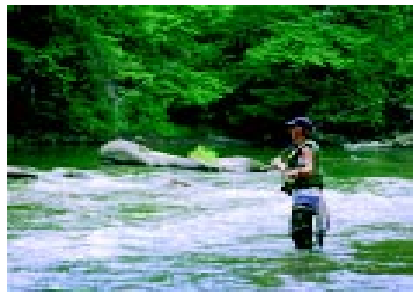
- \$11.2 million increase to support the State Library and local public libraries, including \$7 million in funding to provide new technology and technological enhancements in local public libraries and \$3.1 million to enhance the Library Access Program.

### *Support for Public Libraries*

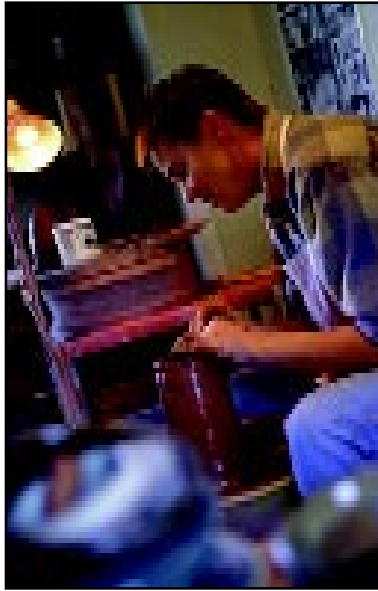


*Total support for public libraries has increased by \$17.1 million from \$29.4 million in 1994-95 to \$46.5 million in 1998-99, an increase of 58 percent.*

- \$23 million from timber sales to maintain and improve the Commonwealth's State forests.
- \$12 million from user fees to maintain and improve the Commonwealth's State parks.
- \$1 million to electrify selected campsites at Commonwealth's State parks.



- \$3 million to begin converting public television broadcasting from analog to digital signals.
- \$918,000 increase in the Grants to the Arts Program.



- \$460,000 in fire and security system upgrades for the State-maintained museums.
- \$381,000 for information technology improvements for the Historical and Museum Commission.

## DIRECTION AND SUPPORTIVE SERVICES

The goal of this Commonwealth program is to provide an effective administrative support system through which the goals and objectives of the Commonwealth programs can be attained.

The 1998-99 Budget recommends the following program changes and funding amounts in pursuit of this program's goal.



- \$22.9 million for enterprise-wide information technology projects and development of solutions to the Year 2000 problem with computers.
- \$9.1 million to continue development of the Justice Network.
- \$3.5 million to make the tax system computer applications Year 2000 compliant.
- \$760,000 for a procurement system in the Department of General Services which will improve services to vendors and customer agencies.
- \$680,000 to automate Labor and Industry's field inspection process and improve compliance with public health, safety and labor laws.
- \$226,000 to reduce deceptive, fraudulent, or misleading activities by charitable organizations.

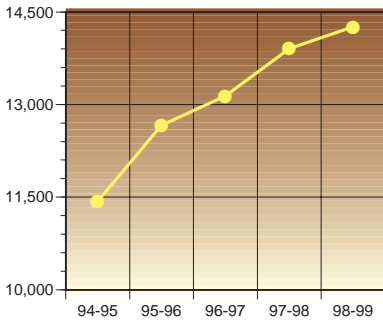


# Personnel Complement

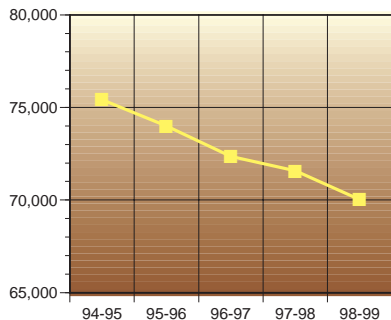
- This budget proposes a net reduction in total salaried complement even after including additional positions necessary for the State correctional system and the Board of Probation and Parole.

	1996-97 Actual	1997-98 Available	1998-99 Budget	Difference
Corrections and Board of Probation & Parole .....	13,139	13,907	14,255	348
All Other Agencies .....	72,361	71,569	70,030	-1,539
<b>Total .....</b>	<b>85,500</b>	<b>85,476</b>	<b>84,285</b>	<b>-1,191</b>

## Authorized Salaried Complement



**Corrections and the Board of Probation & Parole**



**All Other Agencies**

*This budget proposes a net reduction of over 1,000 positions in the total salaried complement even after providing additional positions necessary for the State correctional institutions and the Board of Probation & Parole.*

# SALARIED COMPLEMENT BY AGENCY

## Full-Time Equivalent (FTE)

*The following is a summary, by department, of the 1996-97 actual, 1997-98 available and 1998-99 recommended salaried complement levels on a full-time equivalent (FTE) basis.*

Department	1996-97 Actual	1997-98 Available	1998-99 Budget	Difference Budget vs. Available
Governor's Office .....	91	91	91	
Executive Offices .....	2,224	2,256	2,263	7
Lieutenant Governor's Office .....	17	16	16	
Aging .....	105	105	107	2
Agriculture .....	626	626	630	4
Banking .....	120	118	120	2
Civil Service Commission .....	181	181	181	
Community and Economic Development .	306	311	323	12
Conservation and Natural Resources .....	1,304	1,305	1,311	6
Corrections .....	12,239	12,999	13,340	341
Education .....	1,096	1,089	1,090	1
Emergency Management Agency .....	129	129	136	7
Environmental Hearing Board .....	22	22	22	
Environmental Protection .....	3,169	3,098	3,118	20
Fish & Boat Commission .....	438	440	440	
Game Commission .....	731	731	731	
General Services .....	1,316	1,310	1,321	11
Health .....	1,395	1,346	1,338	-8
Historical and Museum Commission .....	322	330	333	3
Infrastructure Investment Authority .....	22	22	23	1
Insurance .....	294	288	293	5
Labor and Industry .....	6,317	6,317	6,302	-15
Liquor Control Board .....	2,969	2,969	2,969	
Military and Veterans Affairs .....	1,813	1,950	2,060	110
Milk Marketing Board .....	36	36	36	
Municipal Employees' Retirement .....	22	22	22	
Probation and Parole Board .....	900	908	915	7
Public Television Network .....	20	20	20	
Public Utility Commission .....	560	547	538	-9
Public Welfare .....	25,625	24,809	23,072	-1,737
Revenue .....	2,317	2,276	2,279	3
School Employees' Retirement System .....	289	289	289	
Securities Commission .....	71	72	74	2
State .....	385	387	403	16
State Employees' Retirement System .....	190	190	190	
State Police .....	5,412	5,501	5,519	18
Tax Equalization Board .....	22	22	22	
Transportation .....	12,405	12,348	12,348	
<b>TOTAL ALL DEPARTMENTS</b>	<u>85,500</u>	<u>85,476</u>	<u>84,285</u>	<u>-1,191</u>



The Lieutenant Governor is leading the Privatize, Retain, Innovate, Modify and Eliminate (PRIME) process which is implementing the recommendations from the Improve Management Performance and Cost Control Task Force Commission study of 1995.

To date, 180 PRIME initiatives have been completed for a dollar savings of over \$220 million. Over 360 recommendations are currently underway.

Examples of work implemented include the following:

- Cross matching prison inmates with active welfare rolls to reduce welfare costs
- Developing new economic development tools to allow Pennsylvania to compete with other states
- Streamlining the procurement process to enable agencies to procure goods and services at lower prices
- Reforming Workers Compensation to enable Pennsylvania to compete with other states to retain and create jobs

1998-99  
BUDGET IN BRIEF

P E N N S Y L V A N I A



# GENERAL FUND

# GENERAL FUND

## *Financial Statement*

	Millions	
	1997-98	1998-99
Beginning Balance .....	\$ 403	\$ 281
Receipts .....	17,077	17,645
Tax Reductions .....	. . . .	-128
	-----	-----
Funds Available .....	\$ 17,480	\$ 17,798
Appropriated .....	-17,269	-17,787
Less Lapses .....	120	. . . .
	-----	-----
Closing Balance .....	\$ 331	\$ 11
Less Transfer to Rainy Day Fund .....	-50	-2
	-----	-----
Ending Fund .....	\$ 281	\$ 9
	=====	=====

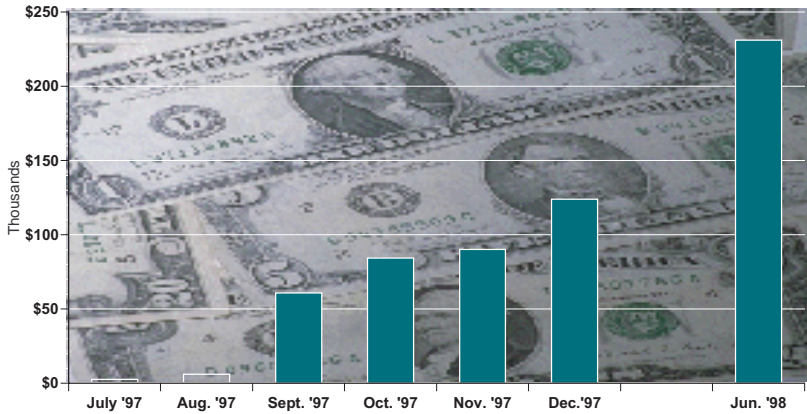
*The Governor has proposed a General Fund Budget for 1998-99 that strengthens public education, emphasizes and encourages job creation and business development, and promotes personal self-sufficiency.*

# GENERAL FUND

## *Revenue Projections*

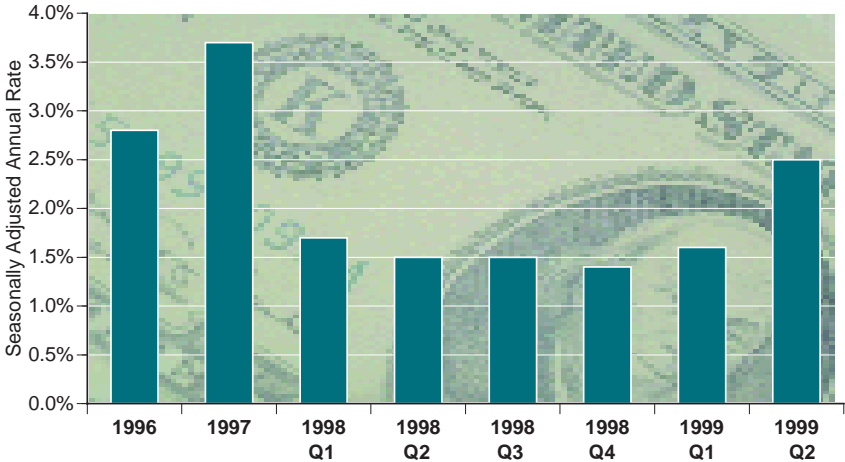
### **Revenues Compared to Estimate**

**Cumulative 1997-98 Actual and Projected**



- Estimated 1997-98 revenues have been raised \$231.1 million due to substantial upward revisions to personal income and inheritance revenues and downward revisions to sales and use and insurance premiums taxes.
- The personal income tax has provided almost all of the revenue surplus to date. The experience of other states is similar.
- Through December 1997, 1997-98 fiscal year revenues have increased 2.8% over the same period in the prior fiscal year.
- Revised estimates for 1997-98 project a 2.1% increase in General Fund revenues.
- For fiscal year 1997-98, revenues, excluding proposed tax changes, are projected to increase by 2.9%.

## Real Gross Domestic Product Growth Rate



- Strong growth experienced in 1997 was unanticipated and is unlikely to continue. The peak growth was reached during the first quarter and growth in subsequent quarters has been lower.
- The currency and banking problems faced by the East Asian countries are affecting U.S. growth rates, but effects are expected to be modest.
- Corporate profits are being affected by slower sales growth, tight labor markets and increased price competition from imports.
- Consumers are becoming more cautious in their purchases.
- Because of Pennsylvania's improved competitive position, the Commonwealth should experience economic growth rates close to the national average.

# GENERAL FUND

## *Supplemental Appropriations*

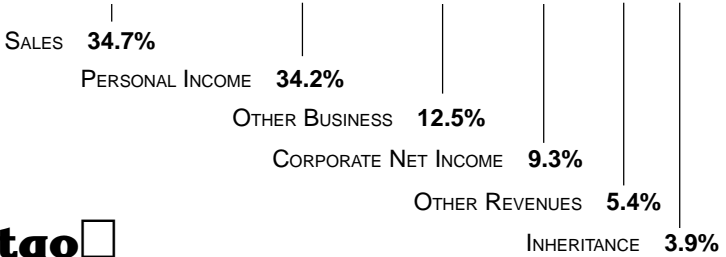
	1997-98 Estimated (Thousands)
<b>Education</b>	
Pupil Transportation .....	\$ 2,444
Education of Migrant Laborers Children .....	56
<i>Education Total</i> .....	<u>\$ 2,500</u>
<b>Environmental Protection</b>	
Steamgauging .....	<u>\$ 580</u>
<b>General Services</b>	
Capital Project Leasing .....	<u>\$ 393</u>
<b>Labor and Industry</b>	
General Government Operations .....	<u>\$ 320</u>
<b>Public Welfare</b>	
Mental Health Services .....	\$ 5,000
Cash Grants .....	- 30,283
Medical Assistance - Outpatient .....	78,646
AIDS Special Pharmaceutical Services .....	2,417
Medical Assistance - Inpatient .....	96,810
Medical Assistance - Capitation .....	- 12,320
Long-Term Care Facilities .....	- 44,023
<i>Public Welfare Total</i> .....	<u>\$ 96,247</u>
<b>State</b>	
Publishing Constitutional Amendments (EA) .....	<u>\$ 600</u>
<b>TOTAL</b> .....	<u><u>\$ 100,640</u></u>



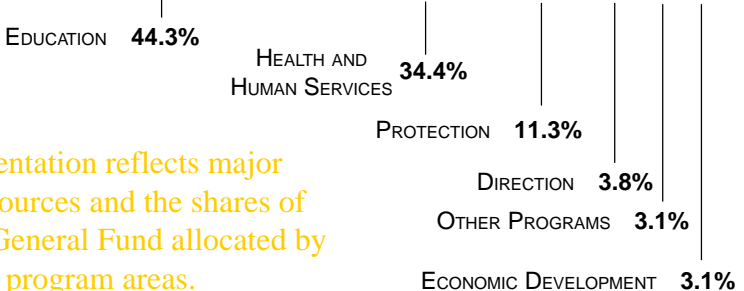
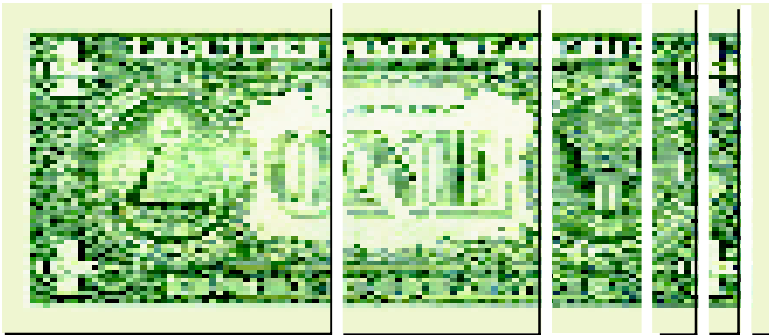
# GENERAL FUND

1998-99 Fiscal Year

## Income

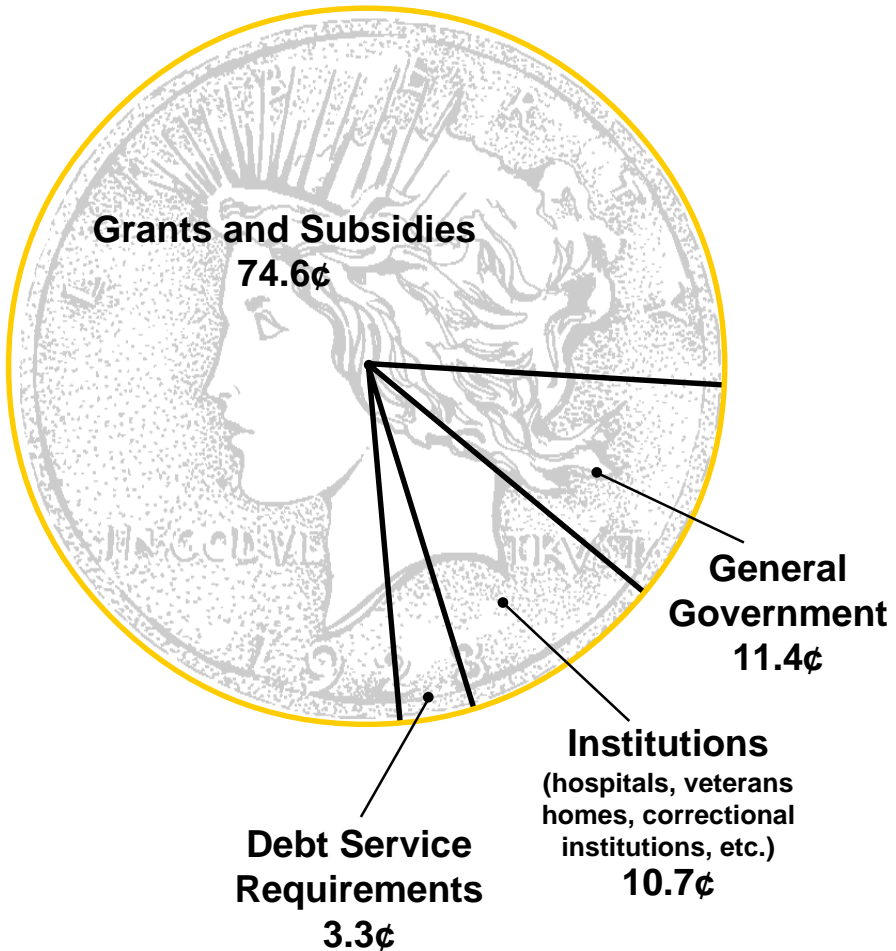


## Outgo



This presentation reflects major revenue sources and the shares of the total General Fund allocated by the major program areas.

# Use of the General Fund Dollar



*Nearly three quarters of each 1998-99 General Fund dollar is returned to individuals, governments, institutions, school districts, etc. in the form of grants and subsidies.*

# MOTOR LICENSE FUND

## *Financial Statement*

	Millions	
	1997-98	1998-99
Beginning Balance .....	\$ 114	\$ 101
Receipts .....	1,821	1,827
	<hr/>	<hr/>
Funds Available .....	\$ 1,935	\$ 1,928
Appropriated .....	-1,873	-1,927
Lapses .....	39	. . . .
	<hr/>	<hr/>
Ending Balance .....	<u>\$ 101</u>	<u>\$ 1</u>

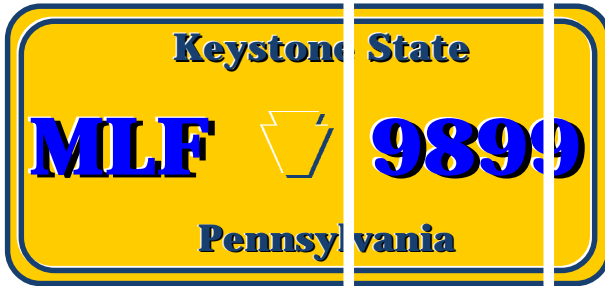
- Continues highway and bridge maintenance program.
- Provides for aggressive program of highway and road construction important for economic development.
- Provides for continued reconstruction of the Commonwealth's interstate system.

# 1998 -99 MOTOR LICENSE FUND\*

(in Millions)

Total Income .....	\$1,827
Beginning Balance .....	101
<b>TOTAL .....</b>	<b>\$1,928</b>

## INCOME



Liquid Fuels Tax — \$1,009

Licenses and Fees — \$731

Other — \$87

## OUTGO



Maintenance — \$720

State Police — \$286

Local Subsidy — \$186

Debt Service — \$112

Improvement, Design — \$359

Other — \$170

Licensing and Safety — \$94

Total Outgo .....	\$1,927
Ending Balance .....	1
<b>TOTAL .....</b>	<b>\$1,928</b>

\* Excludes restricted accounts. Total highway maintenance is \$1,042 billion: \$720 million Motor License Fund and \$322 million restricted accounts.

# LOTTERY FUND

## *Financial Statement*

	Millions	
	1997-98	1998-99
Beginning Balance .....	\$ 57	\$ 37
Receipts .....	1,061	1,114
Funds Available .....	\$ 1,118	\$ 1,151
Appropriated .....	-1,111	-1,120
Lapses .....	30	. . . .
Ending Balance .....	<u>\$ 37</u>	<u>\$ 31</u>

- The Lottery Fund has reached a state of maturity where significant sales growth will be difficult to achieve.
- Provides pharmaceutical cost assistance to qualified older Pennsylvanians.
- Provides in-home and community-based services to qualified older Pennsylvanians.
- Provides free and shared ride transportation for older Pennsylvanians.

# CAPITAL BUDGET

	<u>1998-99</u> <u>Millions</u>
<b><u>From Bond Funds</u></b>	
Corrections .....	\$ 30
Conservation and Natural Resources .....	4
Education .....	7
Environmental Protection .....	5
Public Welfare .....	7
Transportation .....	6
All Others .....	7
	<hr/>
Subtotal Bond Funds .....	\$ 66
<b><u>From Current Revenues and Federal Projects</u></b>	
Conservation and Natural Resources .....	\$ 8
Military and Veterans Affairs .....	37
Transportation .....	522
All Others .....	1
	<hr/>
Subtotal Current Revenues.....	\$ 568
	<hr/>
<b>TOTAL CAPITAL .....</b>	<b><u><u>\$ 634</u></u></b>

- Provides for security and infrastructure improvements at the State correctional institutions.
- Provides for improvements at the State parks, higher education institutions and at the State mental hospitals and State mental retardation centers.
- Provides for additional flood protection projects.
- Provides for the replacement of highway maintenance facilities.
- Provides for Federally funded military construction projects, primarily at Fort Indiantown Gap.
- Provides authorization for major highway rehabilitation projects.



1998-99  
BUDGET IN BRIEF

P E N N S Y L V A N I A



# BUDGET PROCESS





# THE BUDGET PROCESS



The Governor's Budget is developed with a focus on the results of government programs and provides information about program goals, objectives, accomplishments and effects.

The Governor's Budget is a statement of the Commonwealth's program plan, the resources necessary to support that plan, a description of how resources are to be used, and an assessment of the effects of programs on people and the environment. This information is presented so that the levels of expenditure are associated with levels of government services and, ultimately, with the resulting effects on important public policy issues and concerns faced by the Commonwealth.

## PHASES OF THE BUDGET PROCESS

The State budget process can be divided into four stages: gubernatorial preparation and submission to the General Assembly; approval (involving the executive and legislative branches); execution; and program performance evaluation and financial audit.

### PREPARATION

The preparation stage of the budget process begins nearly twelve months prior to the start of that fiscal year. The first step of the preparation stage is the distribution of the Budget Instructions and Program Policy Guidelines by the Governor. The Program Policy Guidelines define major policy issues, spell out priorities and provide policy direction to the agencies for budget preparation.

Agency budget requests are submitted to the Office of the Budget beginning in mid-October but not later than November 1. Agencies prepare and submit their requests using computerized systems. The Agency Program Plan, the programmatic presentation of agency budget requests, and the appropriation level information are prepared and submitted in the format and manner specified in Budget Instructions issued annually by the Office of the Budget.

During December, the Governor meets with Legislative leaders to apprise them of anticipated spending and revenue levels and to discuss major fiscal issues expected to be addressed in the upcoming budget.

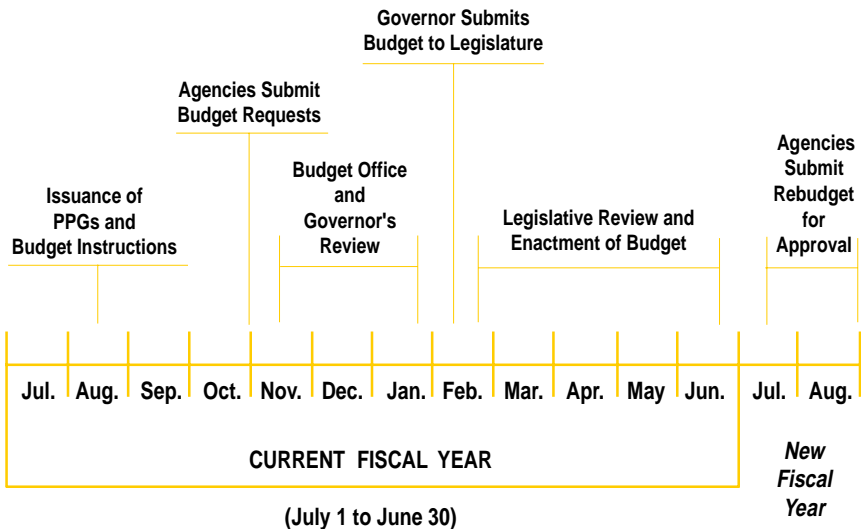
The Secretary of the Budget and his staff review agency budget requests for accuracy and for adherence to the Governor's policy guidelines. The Agency

Program Plan and the appropriation templates are used by the Office of the Budget to analyze the agency requests and prepare funding recommendations for the Secretary of the Budget and the Governor. Total agency requests must be brought into balance with total funds estimated to be available from existing sources and any new revenue sources that are recommended. The Secretary of the Budget makes recommendations to the Governor on the expenditure proposals contained in each agency budget request and, in conjunction with the Secretary of Revenue, provides revenue estimates. The Governor reviews these recommendations and makes final budget decisions. The Governor's Executive Budget document is then completed and submitted to a joint session of the General Assembly by the Governor through his budget address.

**APPROVAL**

Shortly after receiving the Governor's budget request, the Appropriations Committees of the House and Senate hold public hearings to review individual agency requests for funds. The appropriations hearings provide the legislators with an opportunity to review the specific programmatic, financial and policy aspects of each agency's programs. The legislators make their decisions on the budget which are reflected in the General Appropriation Bill and individual appropriation bills. The General Appropriation Bill contains appropriations for the executive, legislative and judicial departments, public schools and for public debt. All other appropriations are made individually by separate special bills.

**BUDGET CYCLE IN PENNSYLVANIA**



Appropriations made to institutions not under the absolute control of the Commonwealth are considered nonpreferred appropriations and require a two-thirds vote of each House of the General Assembly for passage. The passage of the General Appropriation Bill and other appropriation bills by the General Assembly and the passage of any revenue measures which may be required to ensure a balanced budget constitute the legislative approval phase of the budget process.

At the time that the General Appropriation Bill and other appropriation bills are presented to the Governor for approval, the official revenue estimates for the budget year are established by the Governor. If the appropriations passed by the Legislature exceed the revenue estimates plus any available surplus, the Governor has the authority and duty either to veto entire appropriation bills or to reduce the amount of appropriations in order to produce a budget that is in balance with total resources available. The Governor also has the power to reduce or item veto any appropriation he thinks excessive or unnecessary even if the total appropriations passed by the legislators do not exceed estimated resources available. A Governor's item veto may be overridden by a two-thirds vote of each House of the General Assembly.

The signing of the appropriations bills and any revenue bills by the Governor is the last step in the approval stage of the budget process.

On occasion, additional appropriations are made subsequent to the passage of the General Appropriation Act. These additional appropriations are made for a purpose for which either no appropriation was originally made, or in those circumstances where the General Assembly deems it desirable that an original appropriation be increased in the current fiscal year period. These appropriations are made in supplemental appropriation bills which are passed in the same manner as regular appropriation bills.

## **EXECUTION**

The Office of the Budget has the authority to request and approve agency spending plans, commonly referred to as rebudgets. The rebudgets are based primarily on the enacted appropriations. The Office of the Budget uses the Integrated Central System to electronically enter allocation amounts into the accounting system based upon the approved rebudget. Program managers and administrators are responsible for operating their programs within the resources that are available and for producing the results cited in the budget.

## **AUDIT**

The last stage of the budget cycle, which occurs after the close of the fiscal year, encompasses audit and review of program and financial performance. The Office of the Budget informally reviews program and financial performance and performs formal evaluations of selected programs. In addition, the Auditor General performs a financial post audit.



# THE CAPITAL BUDGET PROCESS

*The capital budget process in Pennsylvania is similar to the process for operating budgets. It has a preparation and submission to the General Assembly phase, an approval phase involving both the executive and legislative branches, and an execution phase.*

*The preparation phase follows the operating budget preparation cycle for a fiscal year beginning July 1. When agencies submit the budget requests to the Secretary of the Budget beginning in mid-October through November 1, a capital budget request itemizing the projects the agencies want to undertake is also submitted. The requests are reviewed and recommendations developed based on the Governor's financial parameters and policies.*

*Final decisions on the capital budget are made by the Governor at the same time as those for the operating budget. The Governor's final recommendations are contained in a separate Capital Budget section in the Governor's Executive Budget document which is submitted to the General Assembly.*

*The recommendations in the budget document along with any additions or deletions made by the General Assembly are contained in a separate bill usually known as the Capital Budget Project Itemization Act. This bill, along with the Capital Budget Act which contains the maximum debt limitations for the next fiscal year beginning July 1, must be passed by both Houses of the General Assembly and presented to the Governor for signature. The Governor reviews the projects contained in the Project Itemization Act taking into consideration his priorities, the importance of the project and the impact on operating budgets. The Governor may sign the bill as is or item veto parts or all of the amounts contained in the bill. Any item veto may be overridden by a two-thirds vote of each House of the General Assembly.*

*After projects have been approved in an enacted Project Itemization Act, in order for a project to be activated, the Department of General Services must request that it be implemented. All requests for project activation are reviewed by the Office of the Budget for priority classifications and consistency with the Governor's priorities and policies. Projects approved by the Office of the Budget are scheduled for release-first for design and when design is complete, then for construction. These releases are made in accordance with certain fiscal guidelines in order to keep the entire capital budget at affordable levels each year.*



# TERMS USED IN THE BUDGET PROCESS

**Appropriation:** Legislation requiring the Governor's approval authorizing an agency, department, board, commission, or institution to spend a specified amount of money for a stated purpose or purposes during a particular period of time, usually one fiscal year.

**Augmentation:** Monies such as institutional billings or fees which are credited to a specific appropriation of State revenues. An augmentation can usually be spent for those purposes authorized for the appropriation which it augments. Although augmentations usually are appropriated in general terms with no specific dollar limits, Federal aid monies must be appropriated specifically.

**Balanced Budget:** A budget in which proposed expenditures equal actual and estimated revenues and surplus. The Pennsylvania Constitution requires the Governor to submit a balanced budget and prohibits the General Assembly from appropriating monies in excess of actual and estimated revenues and surplus.

**Budget:** A statement of the State's program plan, the resources necessary to support that plan, a description of how and for what purposes the resources are to be used, and a projection of the effects of the programs on people and the environment.

**Capital Budget:** The capital budget is that portion of the State Budget that deals with projects for the construction, renovation, improvement, acquisition and original furniture and equipment of any building, structure, facility, land or land rights. Projects must have an estimated useful life in excess of five years and an estimated cost in excess of \$100,000. Most of the capital budget projects in the past have been paid from monies raised by the sale of bonds.

**Character of Expenditure:** A classification of appropriations according to their general purpose: general government, institutional, grants and subsidies, capital improvements, and debt service.

**Deficit:** A fiscal condition which may occur at the end of a fiscal year, whereby expenditures for a fiscal year exceed the actual cash intake of revenues during the same period plus the prior year surplus. The deficit must be paid from the next year's revenues.

**Encumbrance:** That portion of an appropriation which represents an expenditure pursuant to a contract, a purchase order, or a known demonstrable bill but where an actual disbursement has not been made. In accrual accounting it is treated as a debit against the appropriation in the same manner as a disbursement of cash.

**Executive Authorization:** An authorization made in the name of the Governor to spend money from funds which had been previously appropriated through blanket action of the General Assembly. Usually this term is used in connection with the Special Funds. An example of this would be in the case of Tax Anticipation Notes interest and Sales Tax refunds.



**Expenditure:** As contrasted with disbursement, an accounting entry which is both the payment of cash and/or any encumbrance, as in accrual accounting.

**Fiscal Year:** A twelve month period beginning July 1 and ending June 30 of the following calendar year which is used as the State's accounting and appropriation period. Definition of years:

*Actual Year* – Includes all expenditures and encumbrances chargeable to that fiscal year as of June 30 of the previous year plus any supplementals enacted after June 30. In the case of continuing appropriations, the actual figure will also include any available balances. For non-appropriated and non-executively authorized restricted receipts and restricted revenues, it reflects expenditures only.

*Available (Current) Year* – State funds include amounts appropriated to date and supplemental appropriations recommended in this Budget. In the case of Federal funds, the best estimate currently available. For non-appropriated and non-executively authorized restricted receipts and restricted revenues, the best estimate of expenditures currently available is used.

*Budget Year* – Reflects the amounts being recommended by the Governor in this document for the next fiscal year.

*Planning Years 1, 2, 3 and 4* – Reflects only the cost of the budget year projected into the future and the implementation of legislatively mandated increases which may be effective in a future year.

**General Appropriation Bill:** A single piece of legislation containing numerous individual appropriations. The General Appropriation Bill contains only appropriations for the executive, legislative and judicial departments of the Commonwealth, for the public debt and for public schools. All other appropriations are made by separate bills each concerning one subject.

**General Fund:** The fund into which the general (non-earmarked) revenues of the State are deposited and from which monies are appropriated to pay the general expenses of the State.

**Item Veto:** The Pennsylvania Constitution empowers the Governor to disapprove part or all of any item or items of any bill making appropriations of money. The part or parts of the bill approved become law and the item or items disapproved become void. This power is known as the item veto.

**Lapse:** The return of unencumbered or unexpended moneys from an appropriation or executive authorization to the fund from which the money originally came. Most appropriations are for one fiscal year and any unencumbered and unexpended monies usually lapse automatically at the end of that fiscal year.

**Mandated Expenditures:** Expenditures that are authorized and required by legislation, other than appropriation acts, or required by the Constitution. Such expenditures include payment of public debt.

**Nonpreferred Appropriations:** An appropriation to any charitable or educational institution not under the absolute control of the Commonwealth which requires the affirmative vote of two-thirds of the members elected to each House of the General Assembly.

**Objective:** A statement of program purposes in terms of desired accomplishments measured by impact indicators. Ideally accomplishments are intended effect (impact) upon individuals, the environment and upon institutions. The intended effect should be quantifiable and achievable within a specific time and stated resources, and contribute toward pursuing the goals of the Commonwealth. Objectives are found at the program subcategory level.

**Official Revenue Estimate:** The estimate of revenues for the coming fiscal year determined by the Governor at the time he signs the General Appropriation Act. It is this revenue estimate which is used to determine whether appropriations are in balance with revenues.

**Operating Budget:** The operating budget is that portion of the State Budget which deals with the general day to day activities and expenses of State Government, paid out of revenues derived from taxes, fees for licenses and permits, etc.

**Preferred Appropriation:** An appropriation for the ordinary expenses of State Government which only requires the approval of a majority of the Senators and Representatives elected to the General Assembly.

**Program Measure:** A general term applied to any of the substantive measures found in the agency programs. Included are impacts, outputs and need and/or demand estimators.

**Program Revision Request (PRR):** A PRR is submitted to support new programs or major changes in existing programs. The PRR reflects the guidance provided by the Governor's Annual Program Policy Guidelines (PPGs), results obtained from special analytic studies, and needs or demands considered relevant by the Governor.

**Restricted Receipts:** Monies which are received by a State fund (usually the General Fund) from a source outside of the State which may be used only for a specific purpose. The funds are held in a trust capacity for a period of time and then are disbursed to authorized recipients including other State agencies. Restricted Receipts do not augment an appropriation. Usually the State makes no other appropriation for the purpose specified for the restricted receipt.

**Restricted Revenue:** Monies which, when received, are designated either by law or by administrative decision for specific purposes. The revenues are deposited in the General Fund or in certain special funds. Restricted revenue accounts continue from one year to the next and finance a regular operation of State Government. Disbursements from restricted revenue accounts must be accounted for as expenses of State Government.

**Revenue:** Monies received from taxes, fees, fines, Federal grants, bond sales and other sources deposited in the State Treasury and available as a source of funds to State Government.

**Special Fund:** A fund in which revenues raised from special sources named by law are deposited (earmarked revenue). Such revenues can be spent only for purposes prescribed by law and for which the revenues were collected. Examples: Motor License Fund, Game Fund and Boat Fund.

**Surplus:** A fiscal condition which may occur at the end of a fiscal year, whereby expenditures are less than the actual intake of revenues during the same period. The surplus funds become available for appropriation for the following year.