Commonwealth of Pennsylvania

2000 Legislative Budget Briefing

Tom Ridge
Governor
OVERVIEW

✓ Economic Outlook
✓ General Fund
✓ Rainy Day Fund
✓ Lottery Fund
✓ Motor License Fund
A Record Performance

<table>
<thead>
<tr>
<th></th>
<th>Past 3 Years</th>
<th>Previous 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>4.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Unemployment</td>
<td>4.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>
Leading Economic Indicators

![Bar chart showing economic indicators from Nov-99 to Oct-00 with values ranging from 105 to 106.4.]
Stocks tumble on growing fear news will worsen

The market fell after Gateway warned that holiday sales might be disappointing. Big Board volume set a record.
“The economy continues to perform well, although it is quickly losing some of its luster.

The risks are rising, ... that economic conditions will deteriorate more than anticipated...”  Mark Zandi, Economy.Com, Nov. 2000

“A record number of businesses are defaulting on bond payments – a pattern similar to what happened before the last recession, in 1990-91.” Standard & Poor’s reported in CNN.com, 12/5/00

“All [economic] signs point to slower growth... a recession in 2001 is a distinct possibility.”  Mike Mandel, Business Week, Nov. 2, 2000

“In an economy that has already lost some momentum, one must remain alert to the possibility that greater caution and weakening asset values in financial markets could signal or precipitate an excessive softening in household and business spending.”  Alan Greenspan speech, 12/5/00

“...the past four years...have surprised [us] on the bright side. That period seems to be coming to an end.”  Goldman Sachs, Nov. 2000

“...the nine-point drop in consumer confidence over the last two months underscores an anxiety about future economic conditions.”  Lynn Francis, The Conference Board, 11/28/00

“The outlook for overall corporate profits next year is fairly modest,... less than half of the estimate for this year.”  Blue Chip Economic Indicators, Nov. 10, 2000

“Job growth has slowed and if ...[it] continues to slow, that’s going to undermine one of the key cornerstones for consumer spending,” Richard Banner, Morgan Stanley Dean Witter, 11/30/00
Gross Domestic Product
Year over Year Change

- Actual
- WEFA Nov. Baseline
Capital Gains Growth

Personal Consumption Spending
Year over Year Growth

Percent

Nov-97  Jan-98  Mar-98  May-98  Jul-98  Sep-98  Nov-98  Jan-99  Mar-99  May-99  Jul-99  Sep-99  Nov-99  Jan-00  Mar-00  May-00  Jul-00  Sep-00
Motor Vehicle Sales
Year over Year Change in Units Sold

Nov-99 Dec-99 Jan-00 Feb-00 Mar-00 Apr-00 May-00 Jun 00 Jul-00 Aug-00 Sep-00 Oct-00
Unemployment Rate
Pennsylvania
General Fund Revenues Compared to Estimate

November Year-to-Date

Thousands

- Corporate Taxes: $17,388
- Sales Tax: $7,208
- Personal Income Tax: $46,967
- Other Revenues: ($31,683)
- Non-Tax Revenues: $32,520
General Fund Year-to-Date Revenues Compared to Estimate

Thousands

$200,000
$150,000
$100,000
$50,000
$0
-$50,000

July August September October November

Concerns to Monitor

- Direction of the Stock Market
- Energy Prices (Oil and Natural Gas)
- Federal Reserve Policy Actions
- Consumer Spending
- Inflation
- Unemployment
### 2000-01 General Fund

#### Projected Status

<table>
<thead>
<tr>
<th>Description</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unappropriated Balance (11/30/00)</td>
<td>$25</td>
</tr>
<tr>
<td>Revenue Surplus</td>
<td>200</td>
</tr>
<tr>
<td>Additional Lapses</td>
<td>140</td>
</tr>
<tr>
<td>Potential Supplementals</td>
<td>–68</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>$297</td>
</tr>
<tr>
<td>Transfer to Rainy Day Fund</td>
<td>–45</td>
</tr>
<tr>
<td>Projected Balance (6/30/01)</td>
<td>$252</td>
</tr>
</tbody>
</table>
### General Fund

#### Potential Supplementals

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td></td>
</tr>
<tr>
<td>Pupil Transportation</td>
<td>$34.8</td>
</tr>
<tr>
<td>Authority Rentals</td>
<td>13.7</td>
</tr>
<tr>
<td>School Employes’ Social Security</td>
<td>7.2</td>
</tr>
<tr>
<td>Early Intervention</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$60.5</td>
</tr>
<tr>
<td><strong>Distribution of Public Utility Realty Tax</strong></td>
<td>$7.0</td>
</tr>
<tr>
<td><strong>Medical Assistance / Early Intervention</strong></td>
<td>. . . .</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$67.5</td>
</tr>
</tbody>
</table>
Rainy Day Fund

Year End Balance

Millions

$0  $100  $200  $300  $400  $500  $600  $700  $800  $900  $1,000  $1,100  $1,200  $1,300


* Projected
Major Increases - Each 1%

- Basic Education Funding: $37.9
- Other Education Subsidies: 23.4
- Higher Education: 18.7
- Medical Assistance: 33.2
- Mental Retardation Programs: 7.3
- Mental Health Services: 6.0
- Child Welfare: 4.7
- Cash Assistance: 2.9
- Corrections: 11.8
- Debt Service: 3.8
- Mass Transit: 2.7

Millions
Litigation

✓ School Funding
✓ HealthChoices Pharmacy Payment Rates
2000-01 Lottery Fund

*Projected Status*

- **Unappropriated Balance (11/30/00)**: $167
- **Revenue Adjustment**: 
- **Additional Lapses**: $43
- **Potential Supplementals**: 
- **Projected Balance (6/30/01)**: $210

* Excludes reserve.
2000-01 Motor License Fund

Projected Status

- Unappropriated Balance (11/30/00) $93
- Revenue Adjustment
- Additional Lapses 15
- Potential Supplementals
- Projected Balance (6/30/01) $108

Millions
2000-01 Tobacco Settlement Fund

Projected Status

- Beginning Balance (7/1/00) $465
- 2000-01 Anticipated Revenue $352

Total $817

Millions
Key Budget Issue

✓ Economic growth slowing
    . . . . . soft or hard landing ??