

Commonwealth of Pennsylvania

2014-15 Mid-Year Budget Briefing

Tom Corbett
Governor

Charles B. Zogby
Secretary of the Budget

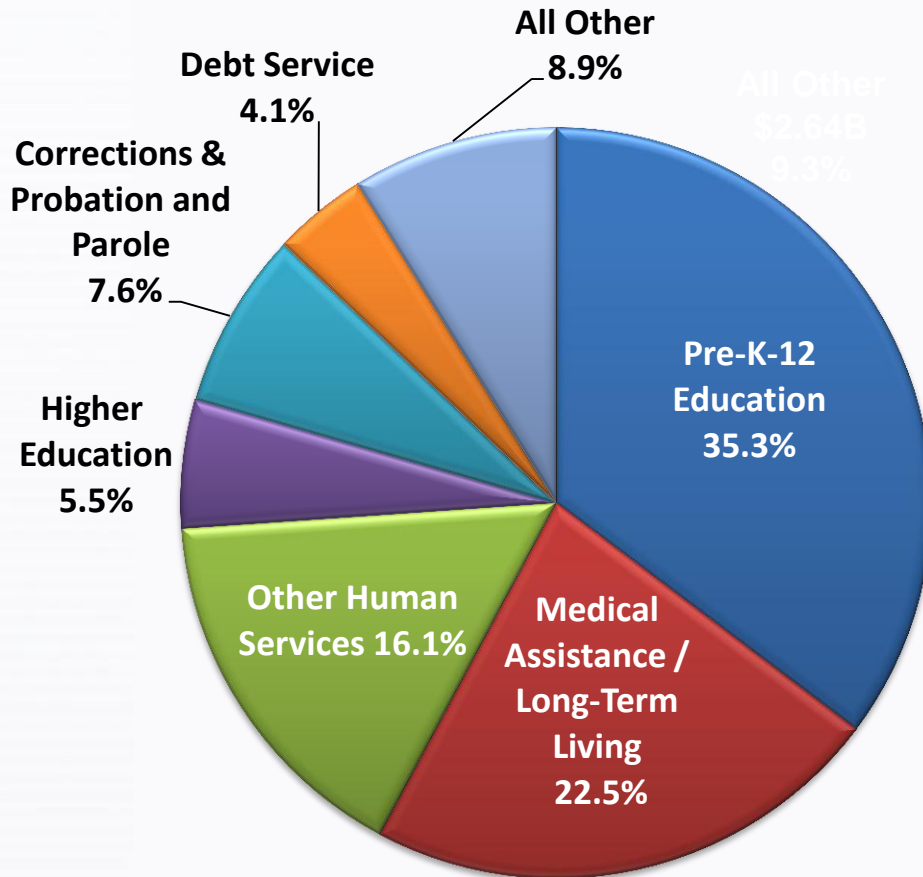
December 3, 2014

2014-15 Enacted Budget Highlights

The 2014-15 budget is balanced with no tax increases and refocuses the investment of tax dollars in the core functions of government.

- The 2014-15 enacted General Fund budget is \$29 billion – an increase of \$632 million, or 2.2 percent, from 2013-14.
- For the fourth 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's history.
- The budget continues the phase out of the Capital Stock and Franchise Tax which will be eliminated in January 2016.
- 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.

2014-15 State General Fund Budget – \$29 Billion



<i>Amounts in Thousands</i>	
Pre-K-12 Education	\$ 10,244,455
Medical Assistance / Long-Term Living	6,530,827
Other Human Services	4,677,579
Higher Education	1,606,861
Corrections/Probation and Parole	2,216,303
Debt Service	1,183,260
All Other	2,567,316
Total General Fund Expenditures	\$ 29,026,601

2014-15 General Fund Revenues

In the first five months of 2014-15, revenue collections are \$109 million above estimate. When including the planned profit transfer from the LCB, year-to-date revenues are \$189 million above estimate.

	Estimated	Actual	\$ Difference	% Difference
Tax Revenue:	<i>(Dollars in Millions)</i>			
Corporation Taxes	\$ 777.0	\$ 863.1	\$ 86.1	11.1%
Consumption Taxes	4,508.8	4,543.6	34.8	0.8%
Sales & Use – Non- Motor	3,398.0	3,435.6	37.6	1.1%
All Other	1,110.8	1,108.0	(2.8)	-0.3%
Other Taxes	4,804.2	4,868.6	64.4	1.3%
PIT Withholding	3,630.9	3,624.0	(6.9)	- 0.2%
PIT Non-Withholding	573.7	569.8	(3.9)	-0.7%
All Other	599.6	674.8	75.2	12.5%
Non-Tax Revenue	390.0	313.7	(76.3)	-19.6%
Total	\$ 10,480.0	\$ 10,589.0	\$ 109.0	1.0%

Updates to U.S. Economic Forecasts

The 2014-15 General Fund budget adopted in July 2014 was based on economic forecasts available at that time. Since then, the forecasted changes include a decrease in Real GDP and an increase in U.S. Consumer Expenditures and U.S. Wages & Salaries for 2014-15.

Global Insight's Outlook for Fiscal Year 2014-15

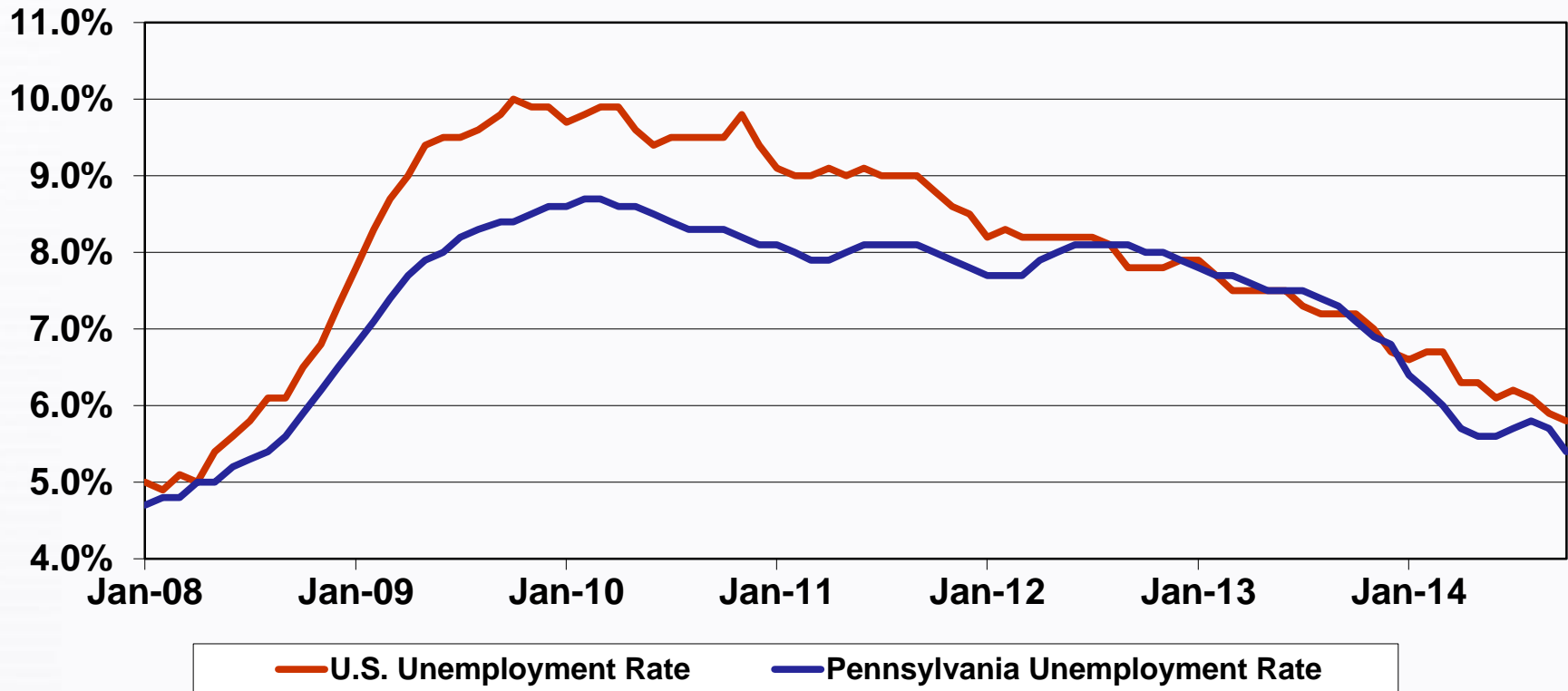
Changes from June to November

	<u>June 2014</u>	<u>November 2014</u>
Real GDP	2.6%	2.5%
U.S. Consumer Expenditures ¹	2.1%	2.8%
U.S. Wages & Salaries	4.3%	5.0%

¹ Data represents U.S. Consumer Expenditures on durable goods less autos.

U.S. and PA Jobless Rates

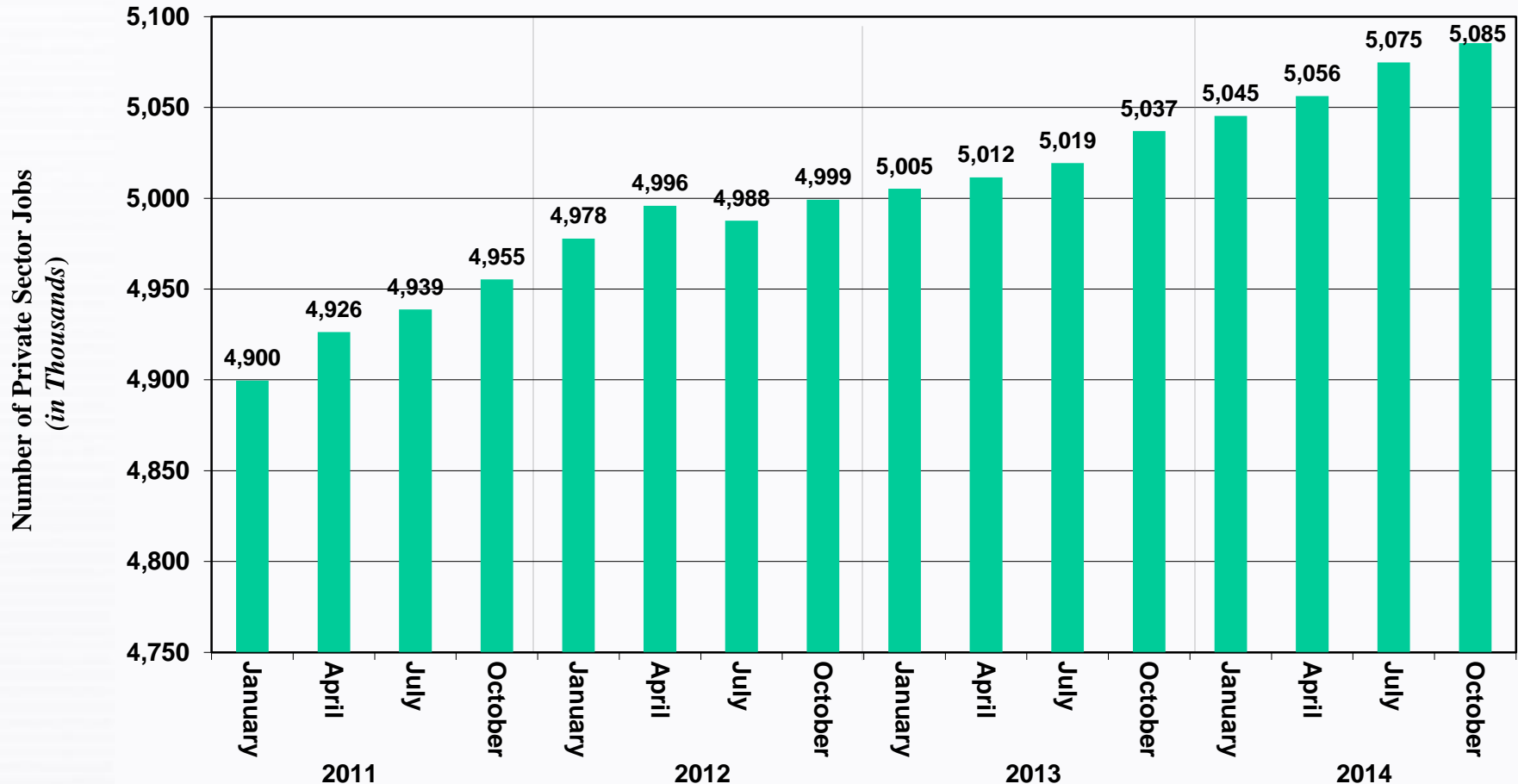
Pennsylvania's unemployment rate is slightly below the U.S. rate. The U.S. unemployment rate decreased to 5.8% in October, while Pennsylvania's rate decreased to 5.4% through October, a six-year low.



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

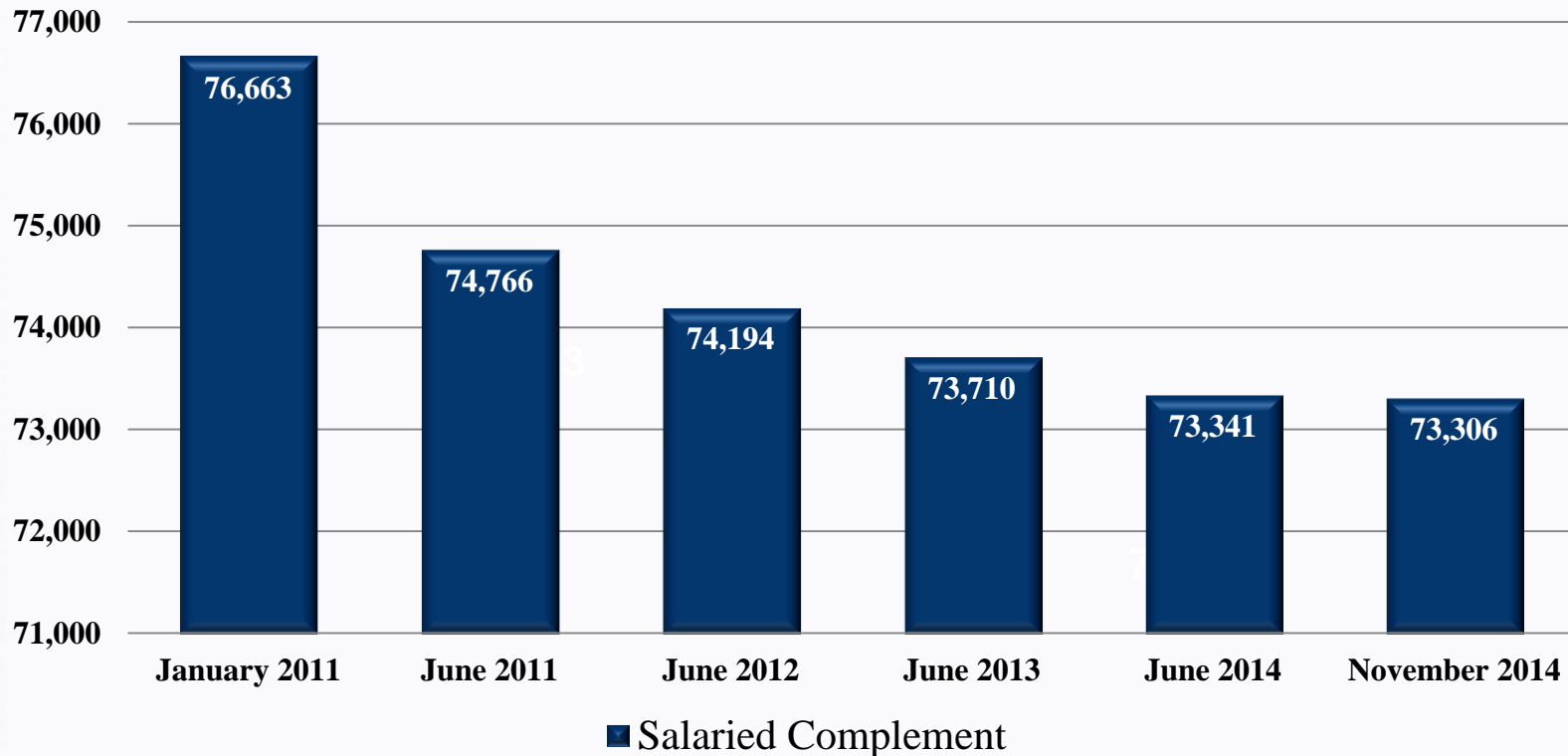
Growing Jobs in Pennsylvania

Since Governor Corbett took office, Pennsylvania has increased private sector jobs by more than 185,000.



Reducing Administrative Spending

Since Governor Corbett took office in January 2011, filled staffing levels have declined by more than 3,300 positions, or 4.4 percent. Additionally, the Corbett Administration has implemented significant productivity and performance improvement reforms to enhance program accountability and reduce costs by \$699 million.



General Fund Spending Growth

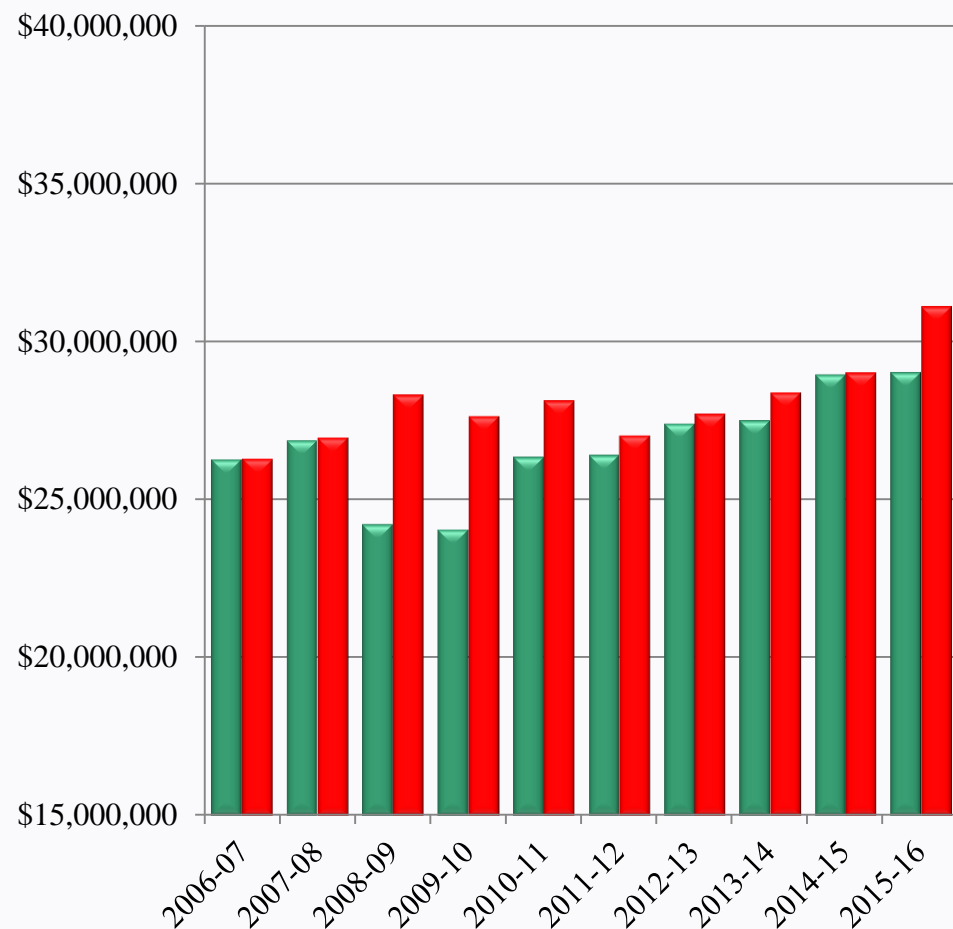
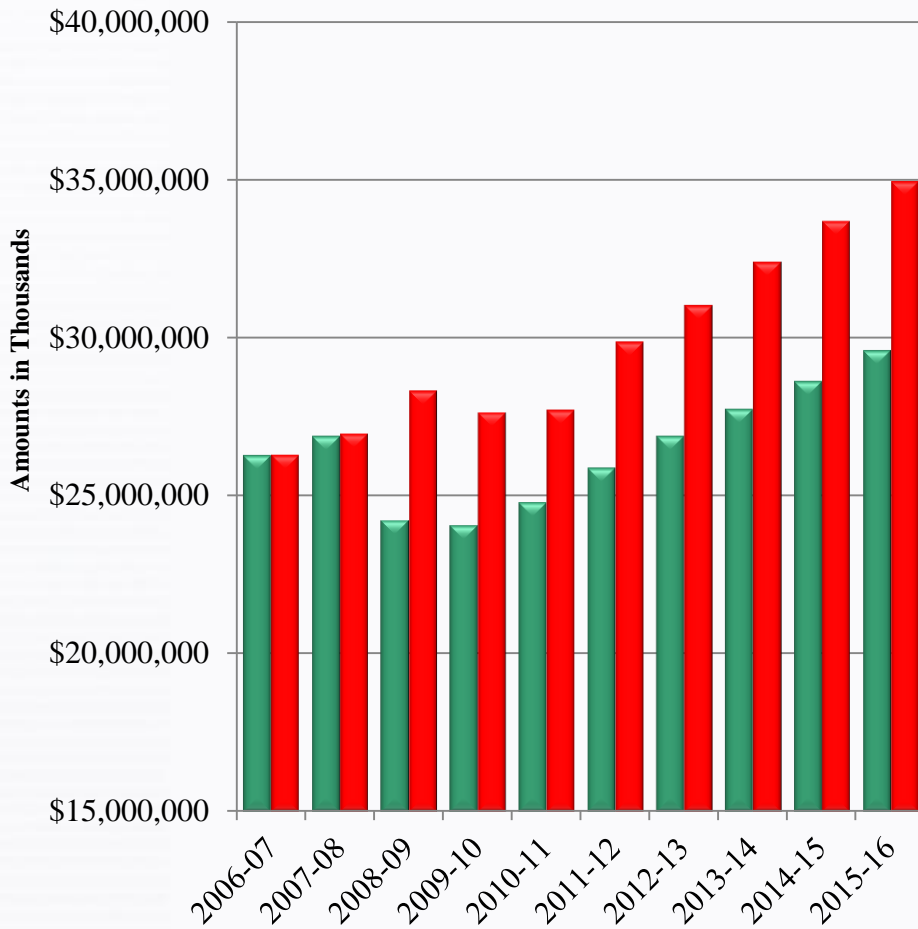
Amounts in thousands

	2002-03	2010-11 Rendell	2014-15 Corbett
General Fund Spend	\$20,400,104	\$28,139,791	\$29,026,601
Total Spending Increase Compared to the Prior Administration		\$7,739,687	\$886,810
Average Annual Percentage Change		4.1%	0.8%
Average Annual Spending Increase		\$967,000	\$222,000

Update on the 2011-12 Budget Slides

**Projected Revenue and Spending
March 2011**

**Actual Revenue and Spending
December 2014**



Post-Enactment Developments

Changes and Risks to the Planned Budget – Several known adjustments to the initial spending plan will hurt the commonwealth’s bottom line. In addition, there are other potential risks that could result in further erosion to this year’s spending plan.

Known Adjustments: \$286 million

- Philadelphia Cigarette Tax: \$14 million
- Gaming License Revenue: \$125 million
- Non-Impact Drilling: \$95 million
- Corrections Supplemental Appropriation: \$51.75 million
- Transition Cost Supplemental Appropriation: \$250,000

Potential Additional Risks

- Bank Shares Tax
- Weakness in Lottery Fund Revenues
- Tax Refunds

General Fund Financial Statement

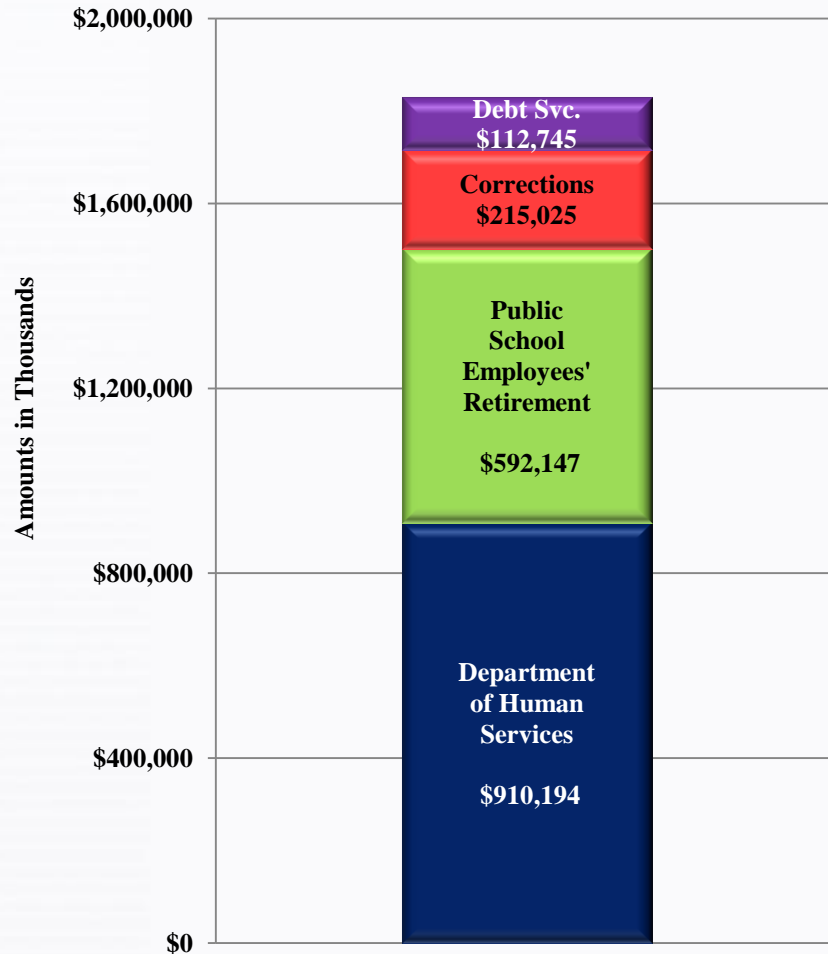
	(Dollars in Millions)	
	2014-15 <u>Enacted</u>	2014-15 <u>Revised</u>
Beginning Balance	\$ 81	\$ 81
Revenue Estimate	30,180	30,140
Refunds	(1,225)	(1,225)
Total Revenue	<u>28,955</u>	<u>28,915</u>
Prior-Year Lapses	0	25
Funds Available	<u>29,036</u>	<u>29,021</u>
Enacted Expenditures	(29,027)	(29,027)
Supplemental Appropriations	0	(52)
Current-Year Lapses	0	60
Total Expenditures	<u>(29,027)</u>	<u>(29,019)</u>
Preliminary Balance	9	2
Transfer to the Rainy Day Fund	(2)	(1)
Ending Balance	<u>\$ 7</u>	<u>\$ 1</u>

2015-16 Budget Planning

Challenges Ahead for the 2015-16 Budget

- Growth in mandated spending areas absent additional cost containment, spending/service cuts, or reforms
- Potential additional risks to the 2014-15 spending plan
- Loss of \$2 billion in one-time gap closing options that were used to balance the 2014-15 budget
- Lottery Fund net revenues
- Majority of commonwealth union contracts expire in June 2015
- Addressing other long-term obligations, such as post-employment benefits
- State Store profitability eroding as growth in operating costs exceeds sales growth

Without cost containment, growth in mandated areas in 2015-16 will total more than \$1.8 billion.



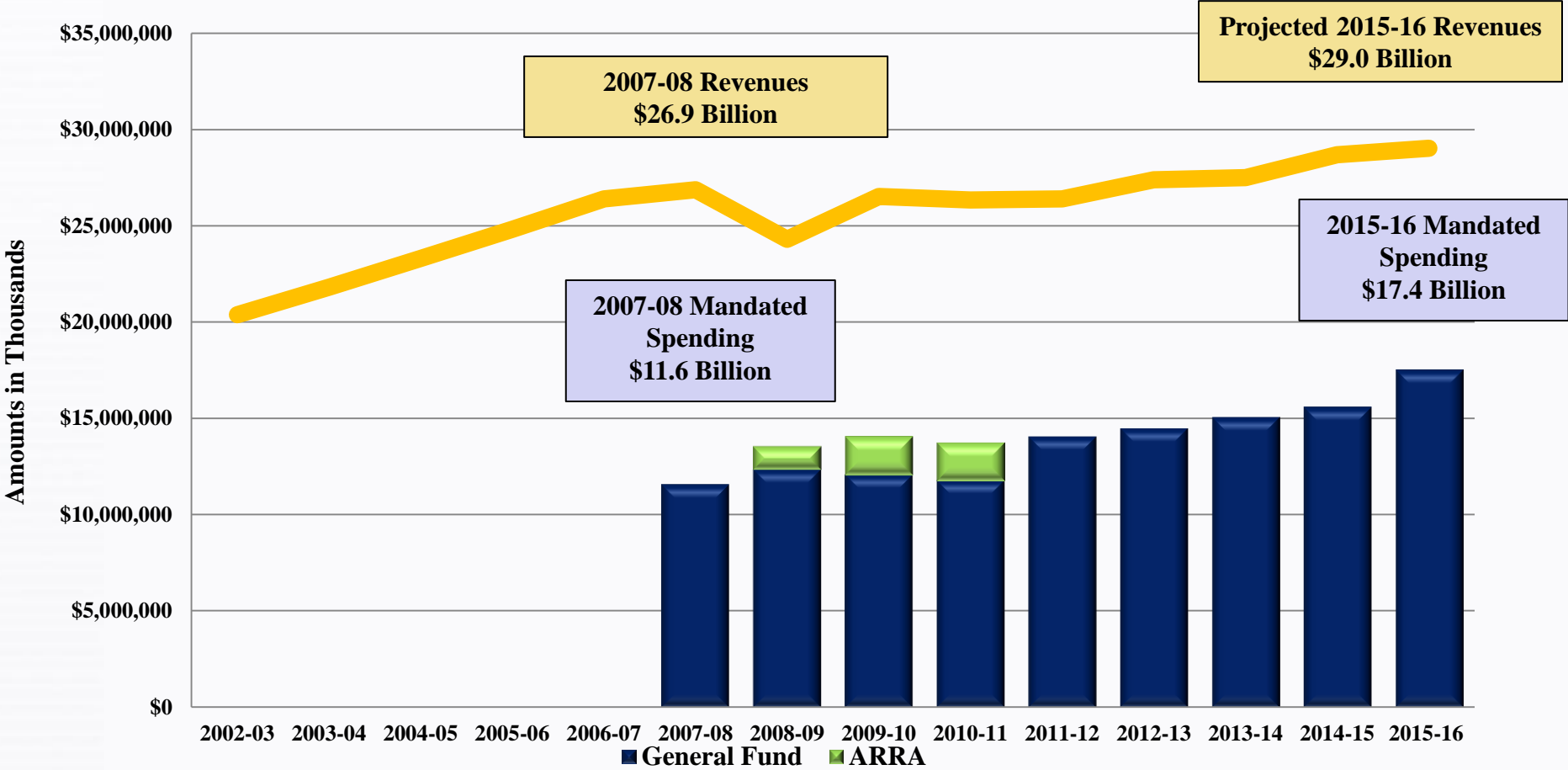
<i>Amounts in Thousands</i>			
	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Debt Service	\$1,145,010	\$1,174,255	\$1,287,000
Corrections	\$1,942,267	\$2,059,975	\$2,275,000
PSERS	\$1,017,000	\$1,157,853	\$1,750,000
Human Services	\$11,045,132	\$11,208,406	\$12,118,600
	\$15,149,409	\$15,600,489	\$17,430,600

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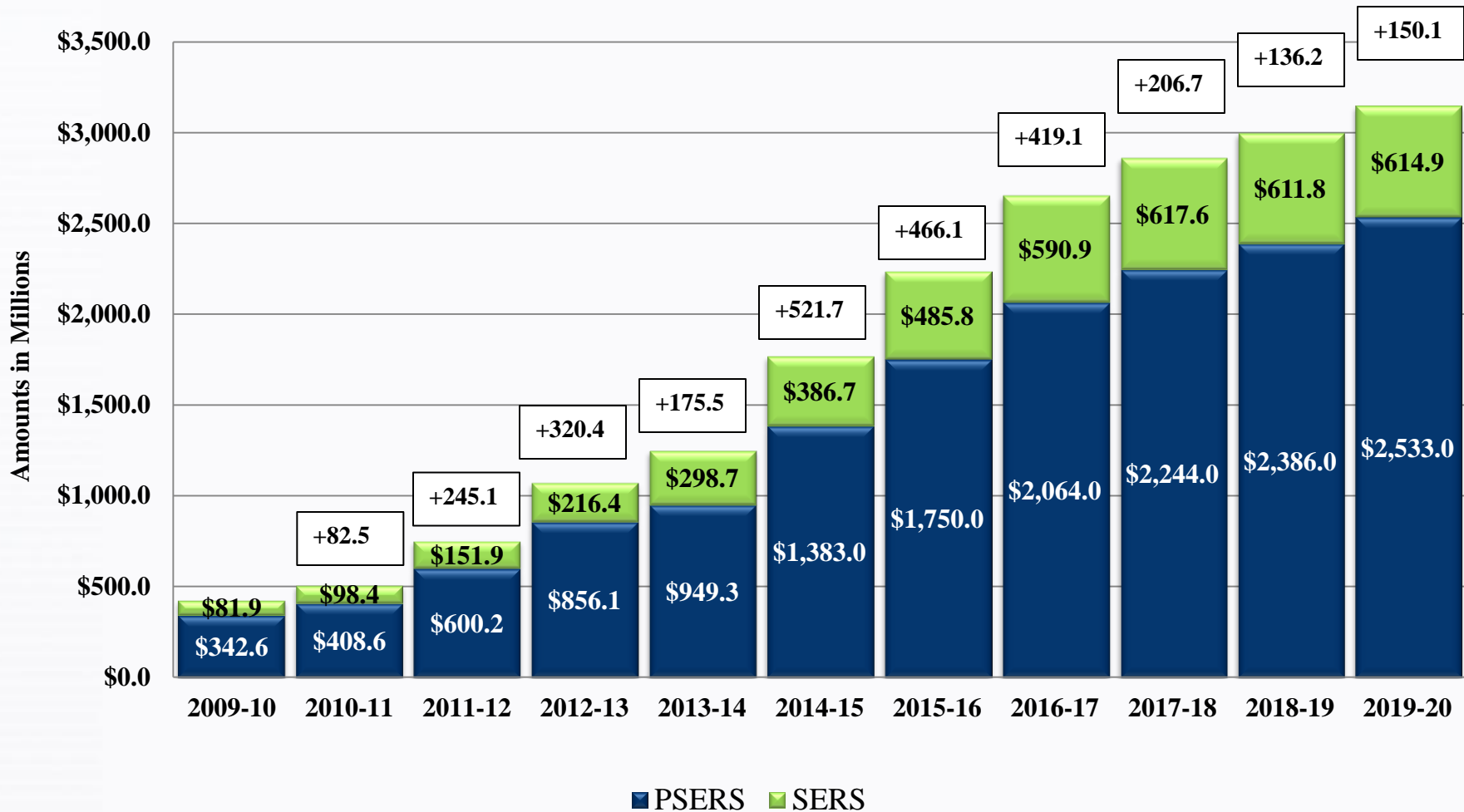
www.budget.state.pa.us

Illustrating the depth and length of the Great Recession, the 2012-13 fiscal year was the first time that General Fund revenues were greater than in 2007-08. Between 2007-08 and 2015-16, mandated spending areas are projected to grow by \$5.8 billion, while net revenues will grow by only \$2.1 billion over the same period of time. This imbalance between revenue growth and mandated spending has the effect of crowding out spending in all other areas of the budget.



Mandated spending includes Department of Human Services, Corrections, School Employees' Retirement and Debt Service. Revenues include tax refunds.

PSEERS and SERS Employer Contributions – GF Share

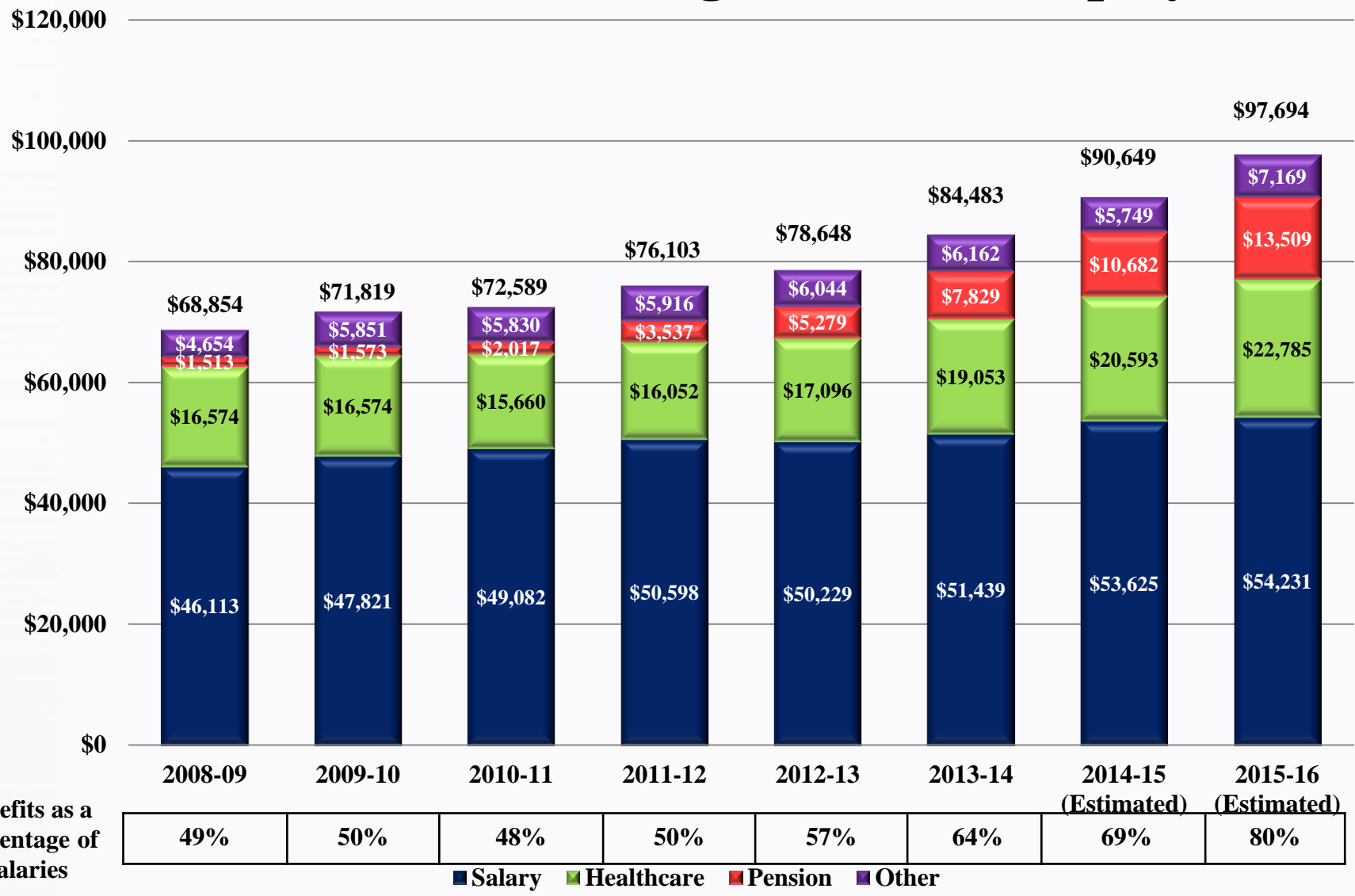


2014-15 PSEERS includes \$225 million from the Tobacco Settlement Fund.

Cost Growth for Average-Salaried Employee

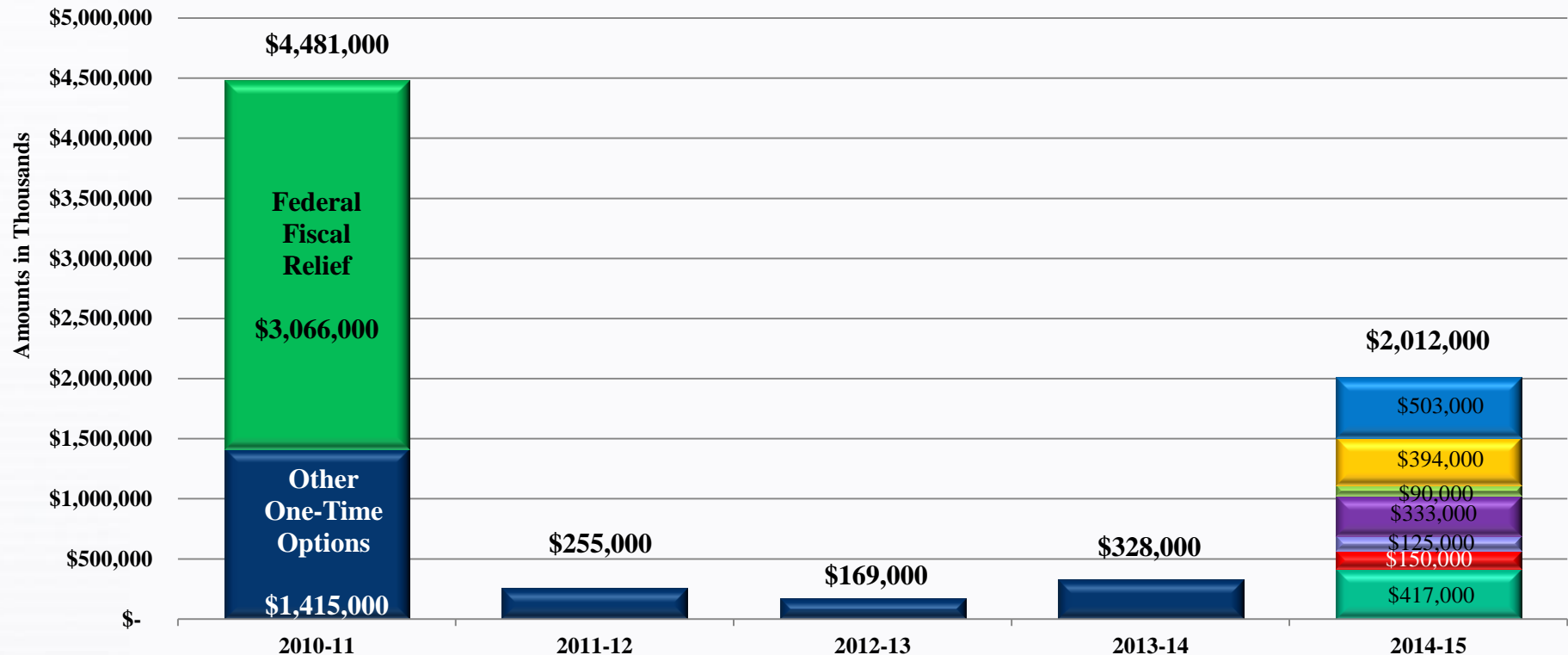
	<u>2014-15</u>	<u>2015-16</u>	<u>Year-over-Year Change</u>	
			\$	%
Personnel Costs:				
Salary	\$53,625	\$54,231	\$606	1.1%
Benefits -				
Active Health (PEBTF)	\$11,876	\$12,619	\$743	6.3%
Retiree Health	8,717	10,166	1,449	16.6%
Pension	10,682	13,509	2,827	26.5%
Other	5,749	7,169	1,420	24.7%
Benefits Subtotal	\$37,024	\$43,463	\$6,439	17.4%
Total Personnel Costs	\$90,649	\$97,694	\$7,045	7.8%
Benefits as a percent of salary	69.0%	80.1%		

Cost Growth for Average-Salaried Employee



One-Time Options in 2014-15

Governor Corbett focused on reducing administrative spending and stretching every dollar before requiring taxpayers to send more of their hard-earned money to Harrisburg.



- **Prior-Year Lapses**
- **Escheats**
- **Gaming Licenses**
- **Transfers from Special Funds**
- **Tax Refund Reduction**
- **Payment Delays**
- **Shifting Costs to Non-Recurring Sources**

Balancing Options

- Pension reform
- Liquor privatization
- Electricity competition
- Agency consolidations and efficiencies
- Additional cost containment in the departments of Human Services, Corrections, and State Police
- Tax and revenue increases

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