



REPORT ON KEY ISSUES FROM THE HOUSE APPROPRIATIONS COMMITTEE

BUDGET BRIEFING

DWIGHT EVANS, DEMOCRATIC CHAIRMAN

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The Commonwealth Checkbook

Governor Rendell's proposed 2007/08 operating budget for the Commonwealth totals \$61.3 billion. This includes the State General Fund, Federal Funds, the Motor License Fund, and other Special Funds, such as the Lottery Fund and Tobacco Settlement Fund and other non-state revenues.

The state General Fund is the focus of this briefing. A separate briefing addressed the Tobacco Settlement Fund.

The 2007/08 state General Fund budget reflects:

- \$28.339 billion in total state money available to spend in 2008/09, an increase of nearly \$611 million or 2.2% from the 27.7 billion available in 2007/08.
- \$28.336 billion in total state spending in 2008/09, an increase of nearly \$1.13 billion or 4.2% from the \$27.2 billion in 2007/08.

At the close of the 2007/08 budget year, the Governor's budget estimates a surplus of \$533.3 million, of which \$133.3 million will be transferred to the Rainy Day Fund bringing the 2007/08 balance to \$614.1 million, as proposed by the Governor in February.

General Fund State Deposits

The total amount of state money available to spend each fiscal year includes deposits received in the current year, plus the balance carried over from the immediate prior year and unspent money from previous budgets. The bulk of deposits is the state taxes collected by the Commonwealth during the fiscal year, with fees and other non-tax revenue (such as Liquor Store

profits) comprising the remainder of annual deposits. Each year the Commonwealth sets aside a portion of current deposits to cover refunds owed to taxpayers for overpayment of state taxes. This so-called "refund reserve" reduces the amount of deposits that are available for the Commonwealth to spend.

For 2008/09, total state money available to spend in the General Fund budget is \$28.339 billion. Deposits collected by the Commonwealth are expected to total \$29.03 billion.

Approximately \$1.1 billion will be reserved to cover any tax refunds.

The Rendell Administration has revised the official estimate for 2007/08 annual deposits by \$427.5 million. **As of February 29, revenues were \$290 million, or 1.9% above estimate.**

Unlike the United States economy, Pennsylvania's economy continues to grow. This growth, however, is expected to be significantly reduced in the upcoming fiscal year.

The Governor's budget projects modest economic growth; for 2008/09, the Administration is estimating overall revenue growth at three percent over the revised 2007/08 estimate. These revenues reflect approximately \$40 million in revenue modifications. A change to the Capital Stock and Franchise Tax phase out rate would generate approximately \$40 million, which would be transferred to the Hazardous Sites Cleanup Fund.

PENNSYLVANIA'S GENERAL FUND CHECKBOOK		
(\$ Millions)	FY 2007/08	FY 2008/09
BEGINNING BALANCE	\$ 530.9	\$ 400.0
STATE DEPOSITS:		
Current Year Payments	\$ 28,188.1	\$ 28,995.0
Proposed Revenue Changes	\$ -	\$ 40.0
Prior Year Payments	\$ 80.0	\$ -
Less: Reserve Account for Overpayments	\$ (1,070.0)	\$ (1,095.0)
Total State Deposits	\$ 27,198.1	\$ 27,940.0
STATE MONIES AVAILABLE TO SPEND	\$ 27,729.0	\$ 28,340.0
STATE EXPENSES:		
Anticipated Expenses	\$ 27,175.0	\$ 28,337.0
Unanticipated Expenses	\$ 30.7	\$ -
Less: Spending Lapses	\$ (10.0)	\$ -
Total State Expenses	\$ 27,195.7	\$ 28,337.0
Preliminary Balance	\$ 533.3	\$ 2.8
Less: Transfer to Rainy Day Fund	\$ (133.3)	\$ (0.7)
ENDING BALANCE	\$ 400.0	\$ 2.1

General Fund State Expenditures

The 2008/09 state General Fund budget request is \$28.336 billion, nearly \$1.13 billion or 4.2% above the current year budget. For 2008/09, the agencies slated to receive additional state funds are led by the Department of Public Welfare (\$688 million), the Department of Education (\$464 million), and the Department of Corrections (\$69 million). Most of the \$30.7 million supplemental request for 2007/08 is for the Department of Education (\$15 million), Judiciary (\$10 million) and the Department of Public Welfare (\$5 million).

Public Welfare

The 2008/09 budget for the Department of Public Welfare (DPW) recommends \$111 million additional state spending for programs that serve individuals with special needs and disabilities, including: mental retardation programs (\$73 million), mental health services (\$11 million), and programs for the physically disabled (\$27 million). Other DPW program areas budgeted to receive significant increases

are county child welfare services (\$95 million) and child care for low-income families, including families receiving TANF assistance (\$64 million).

State spending for the Medical Assistance (MA) program increases by \$455 million, of which \$233 million is required to replace funds that were used in 2007/08 but are no longer available and \$194 million is due to the 2007/08 change in managed care payments which moved the June 2008 monthly payment to the 2008/09 fiscal year. The Governor is proposing savings initiatives (including a new managed care model) and alternative funding sources (namely Tobacco Settlement Funds and Lottery Funds) as a means to reduce the state General Funds that otherwise would be needed for the MA program. Without these budgetary measures, we estimate that state MA funding would have to increase by at least an additional \$597 million above the Governor's 2008/09 request.

Education

Part of the Department of Education's budget reflects an increase of \$24 million for the PA School Employee Retirement System (PSERS) contribution rate. PSERS certified a lower rate of 4.76% for fiscal year 2008/09, however the Governor's proposed budget assumes the current rate of 7.13% due to the expectation that legislation will be passed this fiscal year imposing a 7.13% employer contribution floor.

The Governor's budget has proposed a **substantial increase to the basic education subsidy for 2008/09, increasing by almost six percent or \$291.3 million, for a total of \$5.2 billion.** The formula for the basic education subsidy has been changed in accordance with the recommendations of the State Board of Education's "costing-out study." Specifically, the new formula uses the variables, weights, and calculation methods for basic education funding as recommended in the study. The appropriation for special education increases by three percent for a total of \$1.04 billion. Although the costing-out study included a special education component, the proposed budget uses the same methodology to appropriate funding as was used in previous years.

For the 2008/09 budget, the Governor requested \$275 million for the **Accountability Block Grants** – the same amount of funding that is available for 2007/08. Early Intervention, designed for children aged three to five, would receive an increase of \$12 million for a total of \$185 million, under the Governor's proposal. **Science: It's Elementary** program, would receive a \$1.5 million increase for a total of \$15 million. **Classrooms for the Future** is set to receive a \$90 million, which is the same amount as the 2007/08 appropriation.

Higher Education funding breaks down as follows: a three percent increase for community colleges and the State System of Higher Education; a 1.5% increase for the four state-related universities: Penn State, Pitt, Temple and Lincoln.

Corrections

The Department of Corrections is budgeted to receive an increase of \$68.6 million to address the continued growth in the offender population. The proposed 2008/09 appropriation to the **Pennsylvania Board of Probation and Parole** is just under \$117.2 million, an increase of \$7.6 million or 6.9%. The Administration anticipates that the projected increases in the number of inmates incarcerated in state correctional institutions, along with the lack of bed capacity will **require the construction of three to four new prisons.** This is projected to cost \$200 million per prison and includes \$50 million per year for operating costs at each prison. As a result, \$800 million could be required to build prisons to incarcerate future offenders if no changes are made to the state's sentencing and offender management policies. The Governor's 2008/09 budget assumes the enactment of House Bills 4, 5, 6 and 7 in 2008, which is expected to result in significant savings through changes in sentencing and offender management policies.



QUESTIONS AND COMMENTS

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