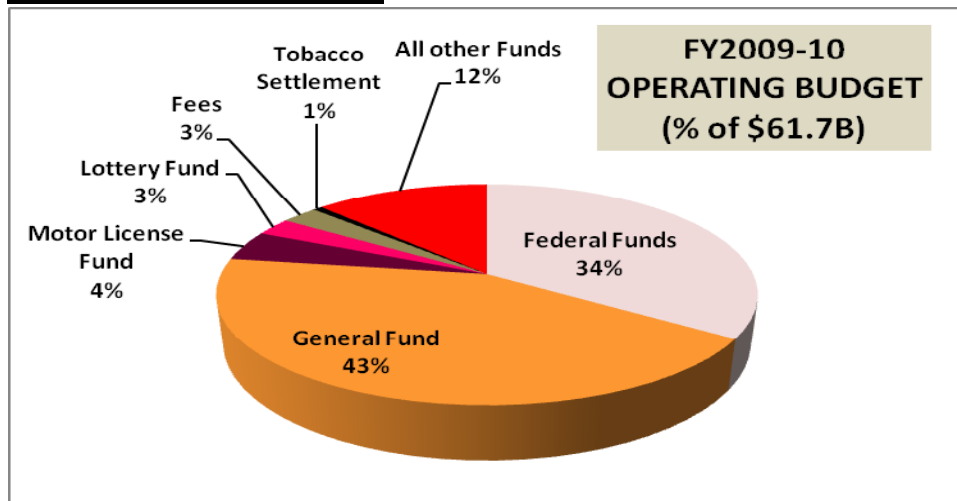


THE 2 PENNSYLVANIA BUDGETS

1. **Operating Budget:** revenues and expenditures to operate the state government and its programs
2. **Capital Budget:** long-term expenditures (typically on buildings, facilities, and infrastructure projects) financed by debt-service.

The Operating Budget is constitutionally required to be in balance.

THE FY 2009-10 BUDGET



The total proposed Pennsylvania FY2009-10 Operating Budget is \$61.7 billion. It includes \$26.6 billion in the General Fund, more than \$2.7 billion in the Motor License Fund, \$21.1 billion in federal funds, and \$11.3 billion in fees and other special fund revenues. The amounts for the General Fund and federal funds reflect the \$2.4 billion in anticipated Federal Fiscal Relief funds that this budget proposes to use in lieu of General Fund monies. The majority of the Commonwealth's operating expenses are paid from the General Fund, Motor License Fund, and Lottery Fund.

The Governor's FY 2009-10 is consistent with his past proposals by emphasizing:

- economic development
- stronger schools
- strengthened communities
- preservation of the environment, and
- avoidance of higher taxes.

But in order to manage his first contracting economy, the Governor's programs for stronger schools, for example, now include job training, work skills, and improving economic competitiveness.

The budget assumes a \$3.9 billion revenue shortfall for FY 2009-10. The Governor's proposal bridges that gap with a combination of:

- federal stimulus money (\$2.4 billion)
- fund transfers (for example, from the Rainy Day Fund)
- targeted tax increases, and
- cuts.

PENNSYLVANIA BUDGET PRIMER

State agencies subject to the deepest cuts include the Department of Community and Economic Development (34%), Emergency Management (52%), Historical and Museum Commission (22%), Department of State (42%), and Military/Veterans Affairs (19%).

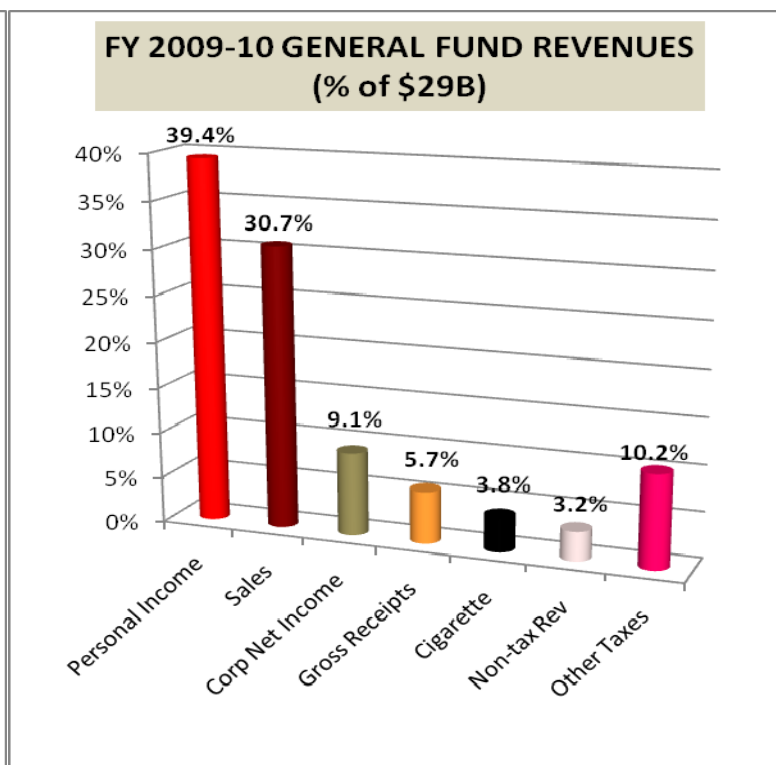
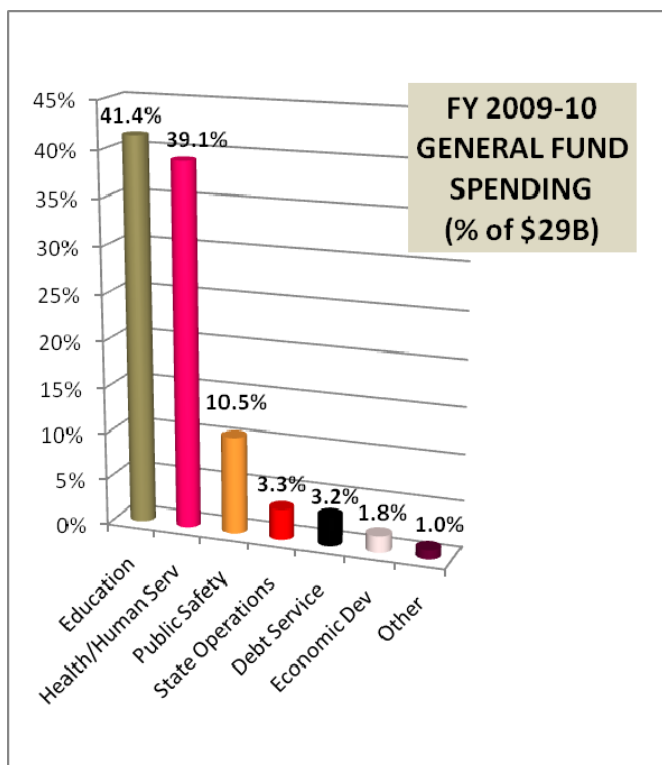
General Fund.

- The General Fund is 43% of the FY2009-10 Operating Budget, its largest segment.
- 97% of it is funded by Pennsylvania taxes.
- It's subject to legislative hearings and fierce competition for available funds.

The “budget” (that is, the Governor’s budget proposal) is comprised of \$26.6 billion plus \$2.4 billion in federal fiscal stimulus funds, for a total of \$29 billion.

The largest General Fund expenditure is earmarked for **education**, an increase of \$262 million from this year. Of that amount, \$5.5 billion is distributed directly to Pennsylvania’s 501 school districts. An additional \$2 billion is allocated for **higher education**, of which \$473 million is distributed directly to college students for financial assistance.

Health and Human Services, the second-highest total expenditure, anticipates an \$800 million infusion of federal fiscal relief funds. Total funds from all sources (i.e., federal pass through funds included) are expected to be \$16.2 billion in FY2009-10. However, the state’s contribution will decrease 6% from \$4.6 billion to \$4.3 billion. In this category, the largest expenditure is **medical assistance** which has grown at an annual rate of 11% during this administration.



Trends.

Much of the annual growth in the Commonwealth's budget is due to mandated programs. A comparison of funding from FY2007-08 (actual expenditures) with budgeted expenditures in FY2009-10 indicates that long-term aging programs and living expenses, children's health insurance, medical assistance, financial aid for college students, and corrections/probation are increasing at a greater pace than are other programs.

Capital Budget.

The Capital Budget funds:

- transportation and redevelopment assistance
- flood control
- highway projects, and
- infrastructure needs of schools and state owned universities, state parks, and other property.

Bond sales support most projects. The Commonwealth expects to sell \$567 million in bonds, plus another \$64 million for infrastructure projects funded by current revenues. ***Yet, in comparison with other states, Pennsylvania's debt service remains very low.***

Current State Budget Issues

Thus far, PA is one of the few states that has resisted raising taxes. **Whether tax hikes can continue to be held off depends, quite simply, on whether the revenue and expense projections assumed in the budget are accurate.**

Linked effects:

- Sales tax dollars are slowing.
- PA's share of the real estate transfer tax is less because of the depressed market.
- Demand for health and welfare services is trending up.
- Municipalities in distress could request assistance.

As reported by the *Inquirer* this past Monday,¹ tax revenues are approximately 8% below estimate thus far this year. (Usually first quarter numbers are robust due to income tax payments.) As a consequence, ***this year's FY2008-09 anticipated shortfall of \$2.3 billion has increased \$300 million to \$2.6 billion since the Governor submitted his proposal in February. Because the current year budget includes federal stimulus funds and a loan from the Rainy Day Fund, other sources will have to be found to bridge this expanding gap.***

WHERE WE ARE IN THE PROCESS

Legislative Review, Consideration, and Adoption.

Appropriations staff:

- review the Governor’s Budget proposal
- hold hearings, and
- approve a budget in the form of legislation.

Traditionally, this involves only a small number of leaders in the majority party of each house drafting the final bill and presenting it to the legislators on an all or nothing basis. Specific language or instructions for implementation are often inserted into the bill as well as a large number of appropriation items.

In Pennsylvania, the Governor does have the power of the line-item veto. (In most cases, it’s used as a threat during budget negotiations.)

Next

Budget Implementation.

- After passage of the appropriations act, the Budget Office begins its implementation procedures. As part of this process, each agency must submit its **rebudget** -- its plan for spending each appropriation. Historically, the amount of control the Budget Office wields has varied.
- On its side, the General Assembly has oversight of executive spending. The law requires the Governor to report certain data (from operating expenses to wage and overtime costs) to the Appropriations Committees monthly.

Previous Actions

Agency/Department Submissions.

- By August 15: Budget Office distributes instructions to agencies /departments requesting state appropriations.
- At the same time, the Governor circulates his Program Policy Guidelines outlining the next FY priorities to those seeking state funding.
- By November 1: Agency/departments requests submitted with written details of each program’s purposes, expected outcomes, and the measures to be used to determine success.

Governor’s Review and Approval.

The Budget Office then analyzes the requests in the context of the Governor’s priorities. Upon completion, the Budget Office compiles recommendations for the Governor’s review.

Also, the law requires the Governor to brief General Assembly leaders and the Appropriations Chairs on “issues he can foresee as being imminent in the budget for the next fiscal year and exchange views with them on the issues....”



- By 1st week of February: Governor’s Budget proposal is due to the Assembly.
- It includes:
 - program goals and objectives
 - explanation of program purposes, and
 - program measures.
- 3 years of appropriations history is examined: the previous year, current year, and upcoming budget year are listed by fund.

Other than the above, neither the Governor nor the General Assembly provides any official comprehensive long-term vision, direction, or plan for statewide policy development and implementation.

The Capital Budget Process

- Capital Budget expenditures on long-term, capital intensive projects are financed by borrowing.
- The debt service is calculated as part of the Operating Budget.
- The federal government does not separate Capital from Operating Budgets.

The Capital Budget process is not dissimilar to the operating budget process.

- Agencies are asked to submit their requests to the budget office.
- The Governor selects projects to recommend for authorization.

Because there is no real limit on the number of projects, legislators often insert projects into the authorization bill.

The Governor’s budget document:

- Lists the proposed authorized projects for the current fiscal year and the projections for new capital authorizations over the next 5 years.
- Also includes the state’s total debt limitations (on an annual basis equals 1.75 times the average tax revenues of the previous 5 years).

The legislature then passes a separate Capital Budget authorization bill after which the Governor may exercise his line-item veto of projects on which he does not agree.

Authorization does not mean that a project will start. Authorized projects are queued by the Department of General Services which statutorily manages the building of non-transportation state projects. The administration then releases funds. The release of funds is another way for a Governor to control which projects come to fruition--he can simply refuse to release the funds. This happens frequently.

The importance of the Capital Budget process is often underestimated. Typically, these are the largest expenditures that the state makes, and they are the projects--highways and transit projects, state facilities like parks or office buildings, state colleges, and more--that are the most visible manifestations of the state’s influence and monetary power.

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RESOURCES

Glossary: <http://www.hacd.net/budget/process/glossary.htm>

FY09-10 Overview: <http://www.hacd.net/budget/200910/overview.htm>

FY09-10 Budget in Brief, Governor's Executive Budget, and more documents:

http://www.portal.state.pa.us/portal/server.pt/community/current_and_proposed_commonwealth_budgets/4566

About the Economy League of Greater Philadelphia

The Economy League of Greater Philadelphia is an independent, nonpartisan, nonprofit organization dedicated to research and analysis of the region's resources and challenges with the goal of promoting sound public policy and increasing the region's prosperity. ELGP is an affiliate of the Pennsylvania

Economy League, Inc., with offices in Harrisburg, Wilkes-Barre, and Pittsburgh. **NEW PUBLICATION:**

What are regional business and nonprofit leaders' saying about Greater Philadelphia's economy? Visit www.EconomyLeague.org.

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ⁱ Amy Worden and Angela Coulombis, "With economic forecasts dire, Pa. struggles to craft budget," *Philadelphia Inquirer*, 27 April 2009.