

The 2009-10 State Budget: Even with stimulus, a difficult year ahead

Michael Wood

Pennsylvania Budget and Policy Center

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Signs of the recession are everywhere in state government

- \$1.08 billion revenue deficit in General Fund, 7.5% of projected collections
- 434,000 unemployed in Pennsylvania, 6.7% of workforce
- 2 million Pennsylvanians on Medical Assistance
- 1.27 million Pennsylvanians on Food Stamps
- 183,000 on adultBasic waiting list

This is a national revenue problem, not a state spending problem



Source. Center on Budget and Policy Priorities

Governor predicts General Fund revenues to fall \$2.3 billion short in 2008-09.

Steps proposed to balance the fund:

- \$266 million in prior year funds (including \$175 million from Legislature)
- \$557 million in cuts to current year budgets
- \$174 million from Oil and Gas Lease Fund
- \$250 million from the Rainy Day Fund
- **\$1.083 billion in federal stimulus funds (FMAP)**

2009-10 Budget

- Provide economic stimulus measures to help businesses create new jobs
- Increase student achievement in our schools
- Make college more affordable
- Increase the number of adults with access to health care
- Rebuild Pennsylvania's infrastructure
- Maintain the safety net

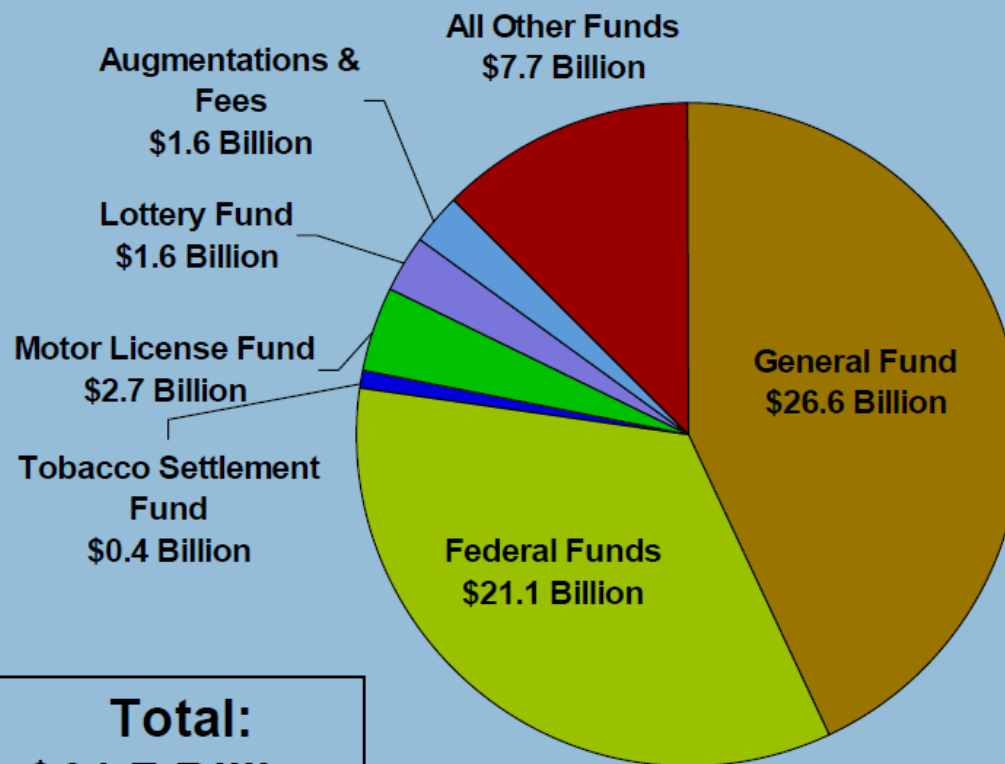
Pennsylvania is Counting on Federal Fiscal Relief

- Balancing the proposed General Fund budget depends on \$1.083 billion in 2008-09 and \$2.41 billion in 2009-10.
- Anticipated relief in two areas:
 - Federal Medicaid Assistance Percentage (FMAP)
 - \$1.083 billion in 2008-09
 - \$1.917 billion in 2009-10
 - State Fiscal Stabilization Fund
 - \$493 million in 2009-10

THESE NUMBERS ARE NOW DIFFERENT

Total Operating Budget Increases from \$61.5B to \$61.7B

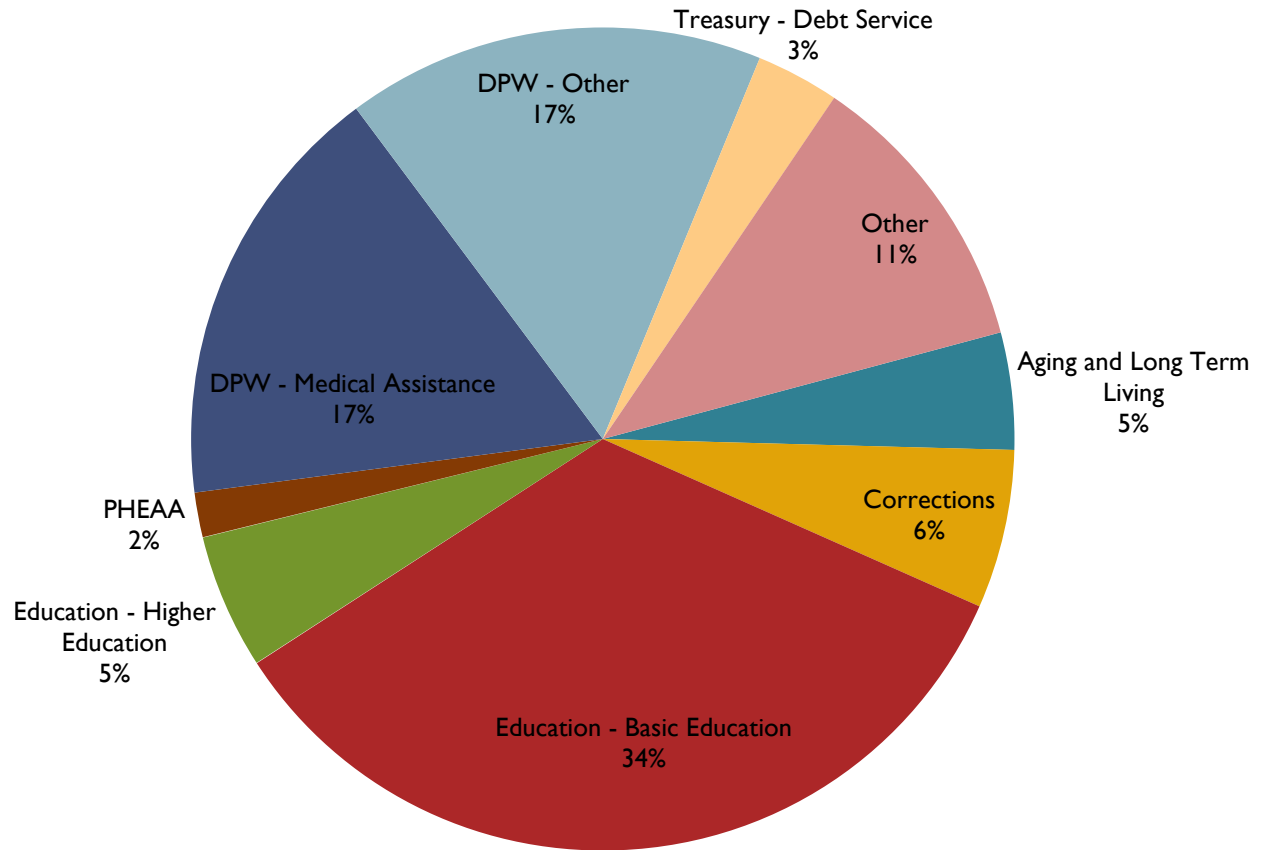
2009-10 Total Operating Budget



The total Fiscal Year 2009-10 operating budget, including all commonwealth funds, is \$61.7 billion. The General Fund represents 43 percent of this amount.

**Total:
\$61.7 Billion**

2009-10 General Fund Expenditures (\$28.97 billion)

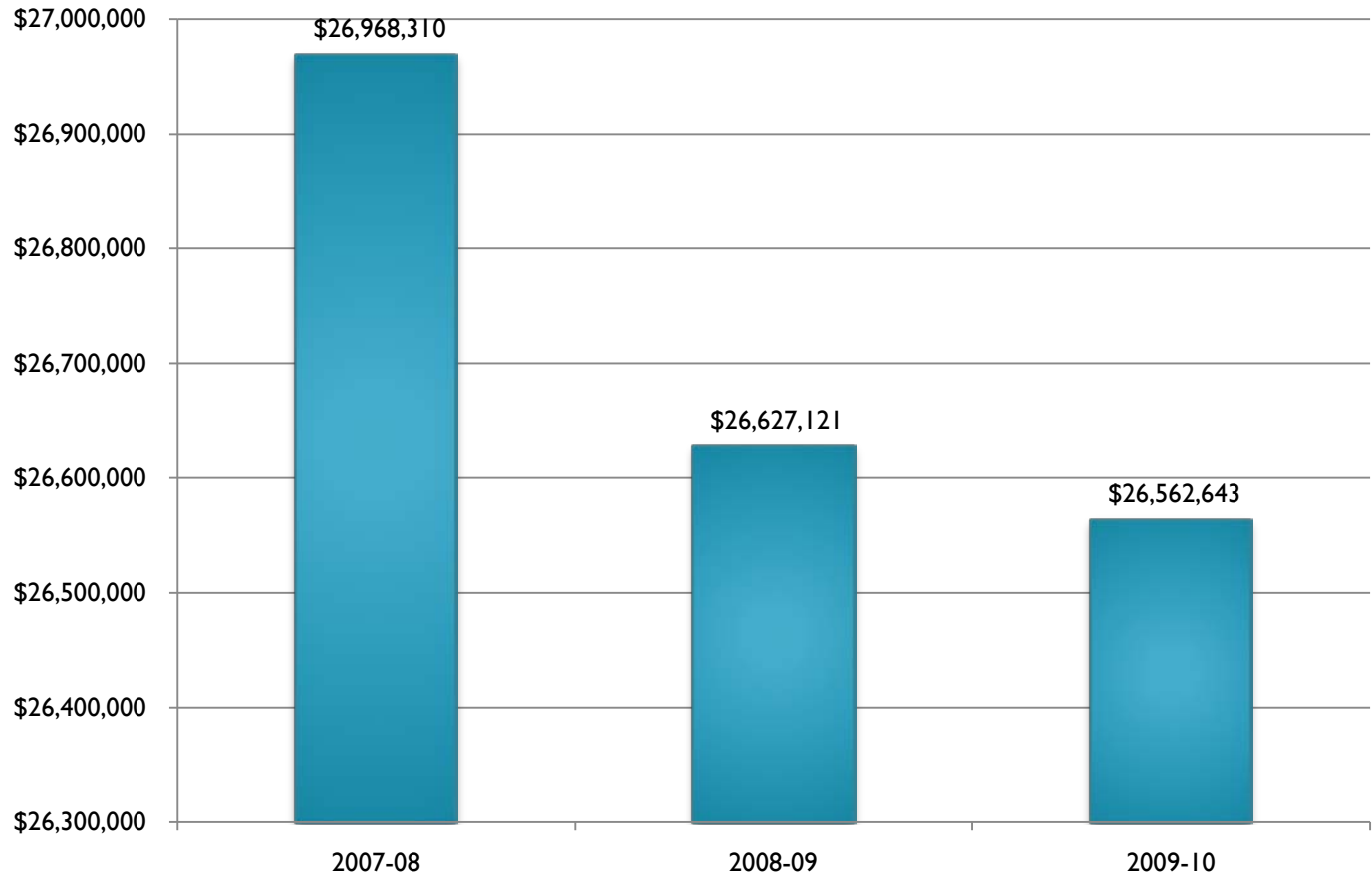


How is this different from last year?

	2008-09	2009-10*	Difference
General Fund	\$28.3	\$26.6	\$(1.7)
Federal Funds	\$18.6	\$21.1	\$2.5
Other Funds	\$14.6	14.0	\$(0.6)
TOTAL	\$61.5	\$61.7	\$0.2

* Net expenditures after shift of funding from federal fiscal stimulus

After fiscal stimulus, state General Fund dollars decrease by \$400 million from 2007-08



2009-10 Department Funding

• Education	\$11.6B	+1.5%
• Public Welfare	\$9.6B	+5.2%
• Corrections	\$1.8B	+10.0%
• Aging and Long Term Living	\$1.3B	+21.2%
• All Other Departments	\$4.6B	-6.7%

Education

- PreK-12 education +\$263 million (+2.7%)
- Higher Education -\$88 million (-5.4%)
- Public Library Services -\$2 million (-2.3%)
- Other -\$6 million (-11.0%)

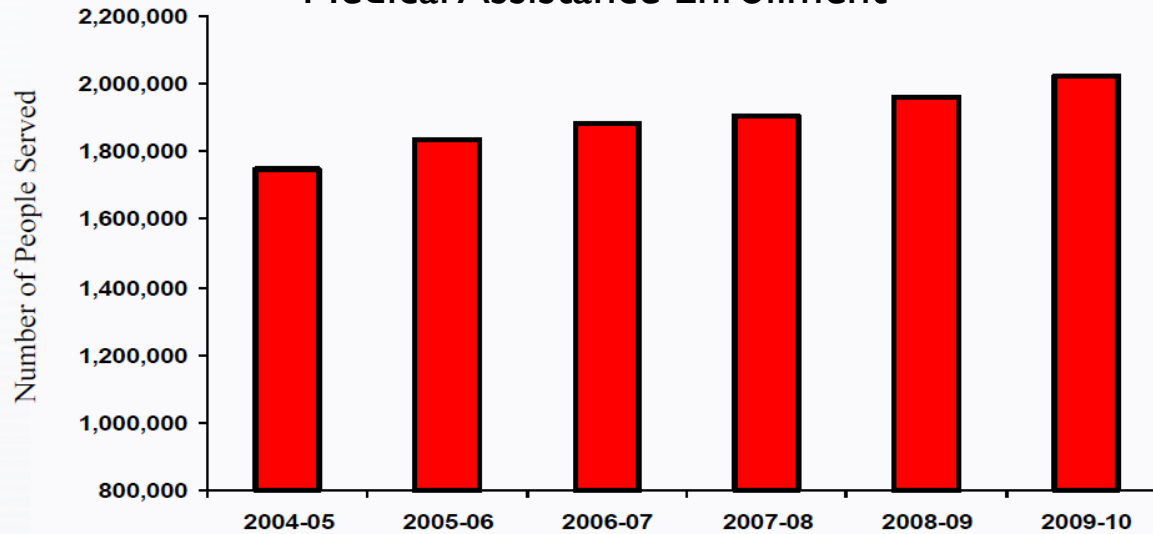
- PHEAA +\$41 million (+8.6%)

Public Welfare

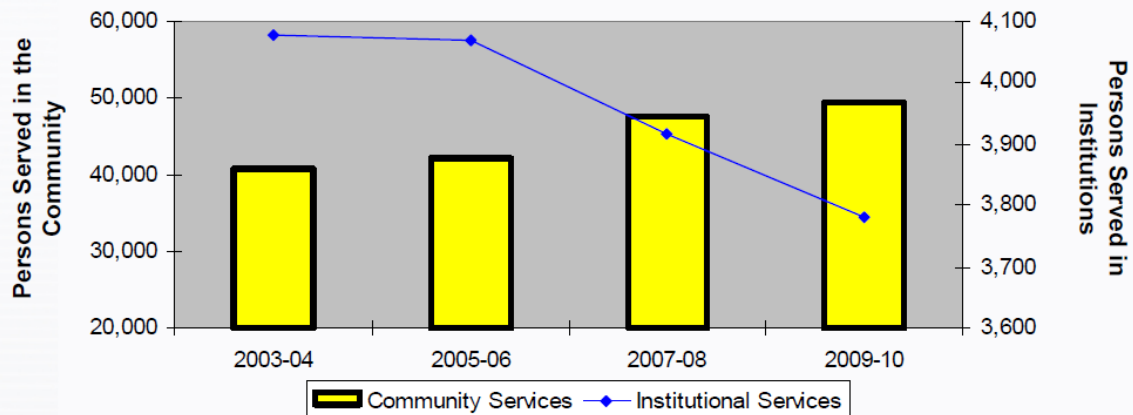
- Medical Assistance +\$333 million (+7.3%)
- Mental Retardation +\$73 million (+6.2%)
- Mental Health +\$19 million (+2.4%)
- Human Services +\$2 million (+0.2%)
- Income Maintenance +\$44 million (+5.5%)
- Other +\$3 million (+0.5%)

Demands increasing...

Medical Assistance Enrollment

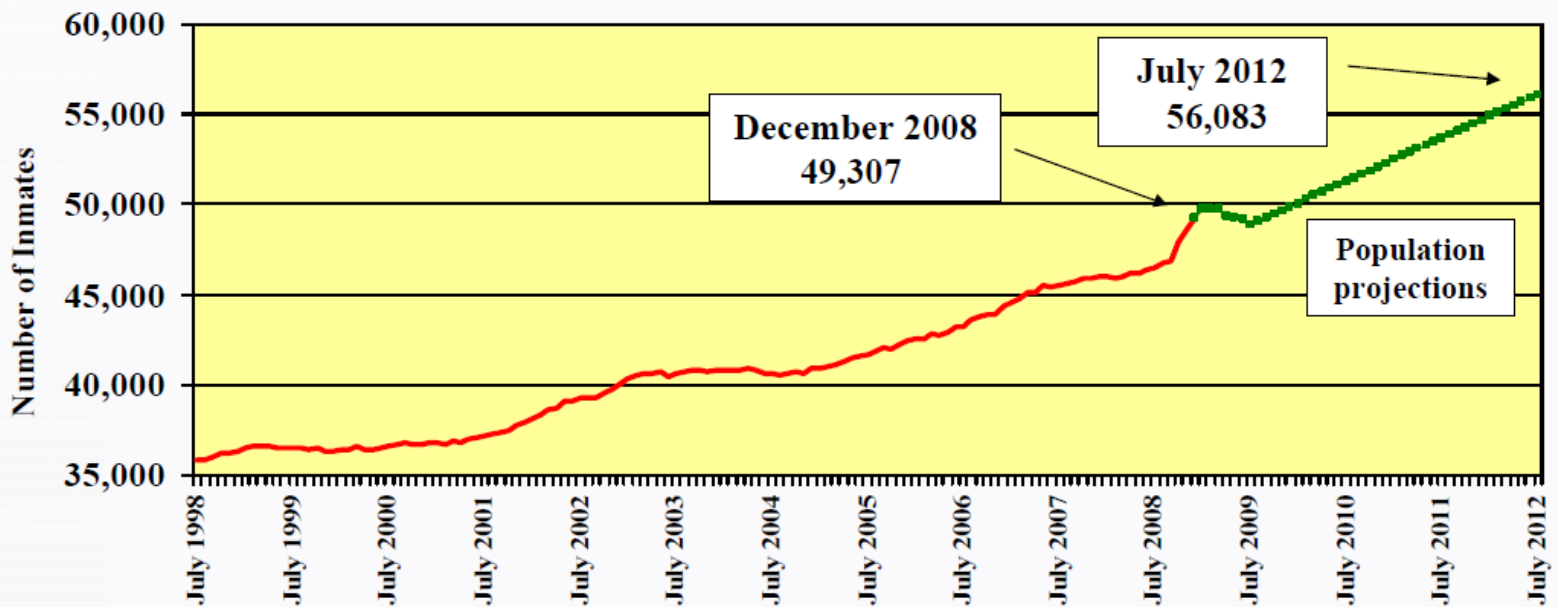


Persons Receiving Mental Retardation Services



Corrections

- Numbers driven by increasing prison population (and related costs – health care, training, etc.)
- Efforts to reduce overcrowding in prisons as inmate population eclipses 51,000
 - Construction of three new 2,000 bed facilities
 - 860 beds to be added to existing facilities
- Number of prisoners in excess of capacity decreases from 5,132 to 4,483



General Fund cuts proposed

	Number	Reduction
Programs eliminated	101	\$395 million
Programs reduced	346	\$582 million
TOTAL	447	\$977 million

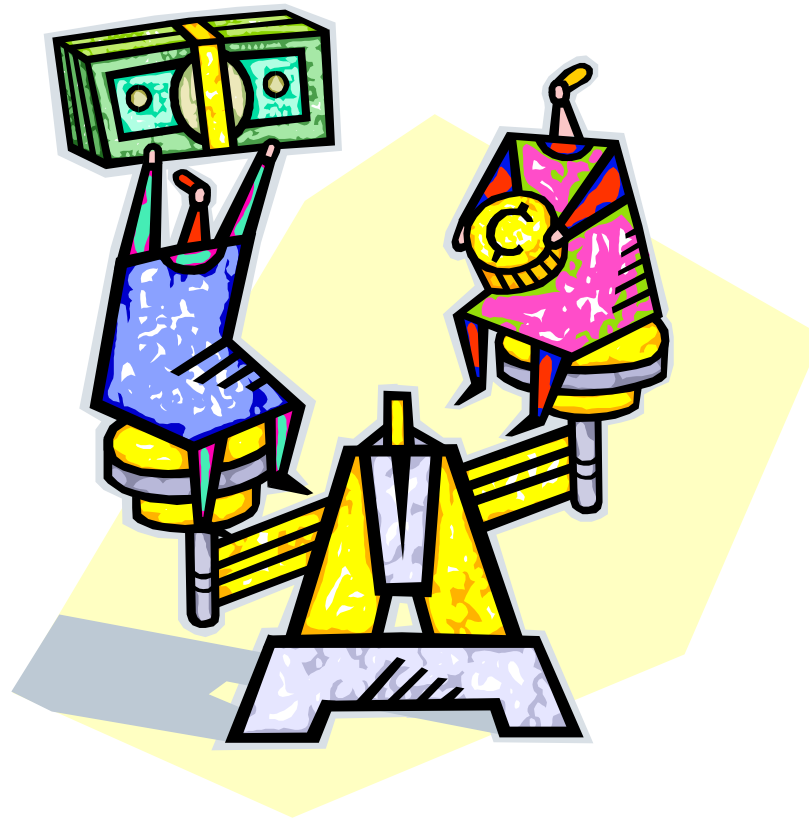
Not just program cuts, but people

The 2009-10 proposed budget eliminates 2,622 positions – or 3.1% of the workforce

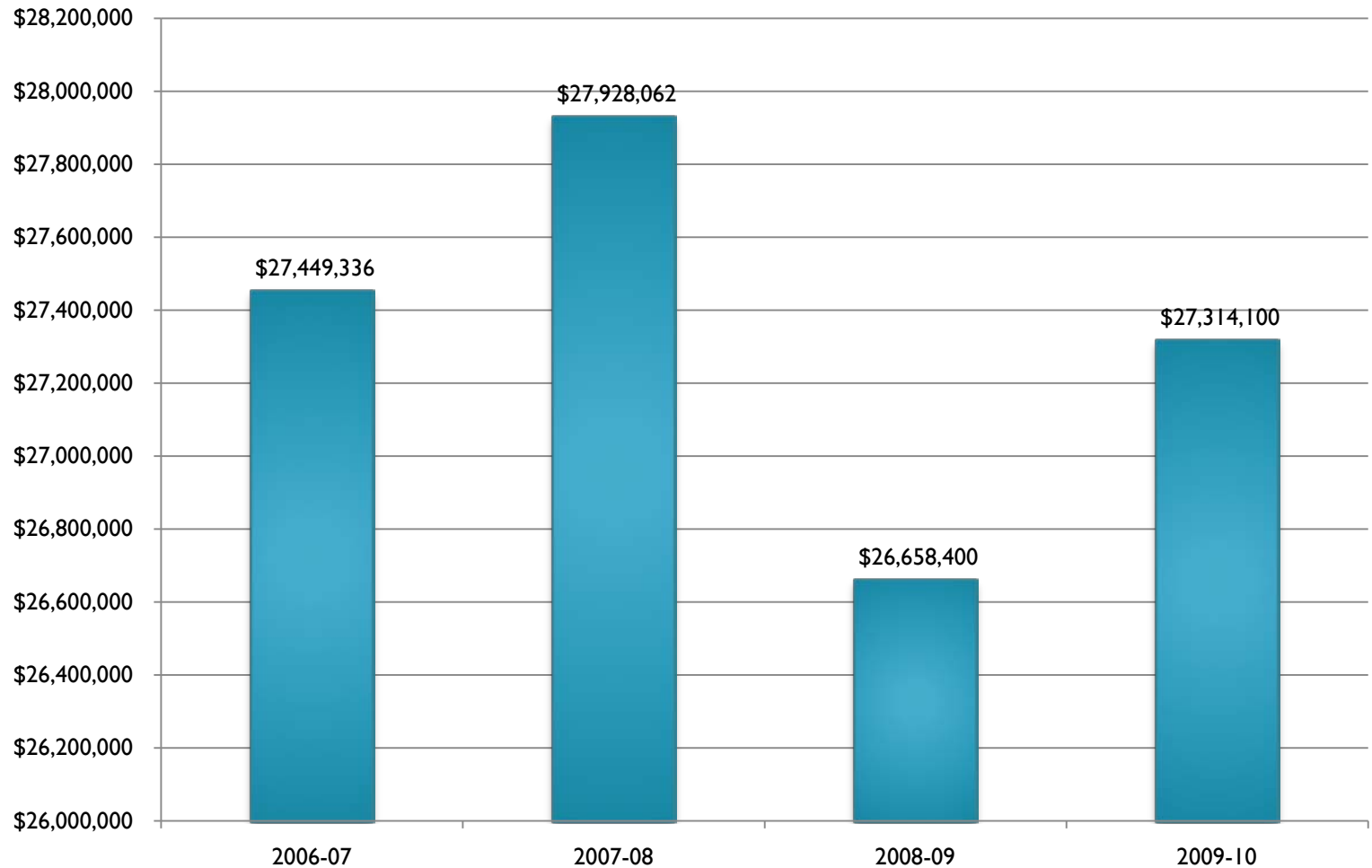
Departments seeing the most cuts

Department	Net Cut Amount	% Chg from 08-09
Emergency Management	\$ (13 million)	-46.8%
Agriculture	\$ (14 million)	-17.0%
Environmental Protection	\$ (18 million)	-7.9%
Judiciary	\$ (18 million)	-6.0%
Military and Veterans Affairs	\$ (20 million)	-15.5%
Legislature	\$ (23 million)	-6.9%
Labor and Industry	\$ (23 million)	-18.1%
Executive Offices	\$ (30 million)	-11.5%
Health	\$ (38 million)	-5.4%
Community and Economic Development	\$ (218 million)	-34.6%

Why so many cuts?

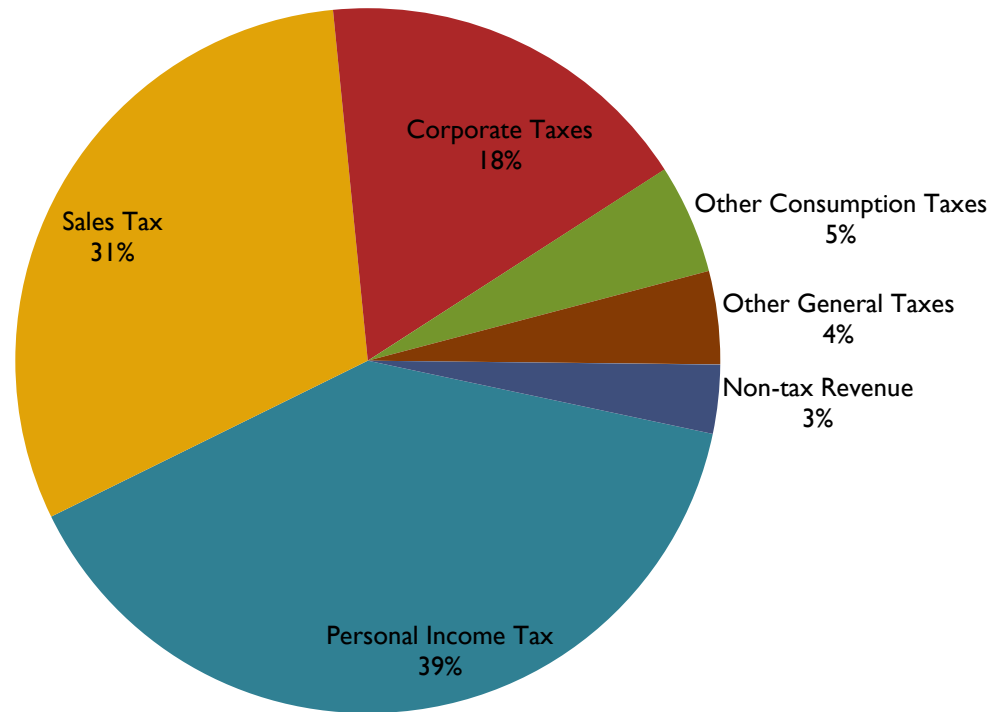


General fund revenue over time

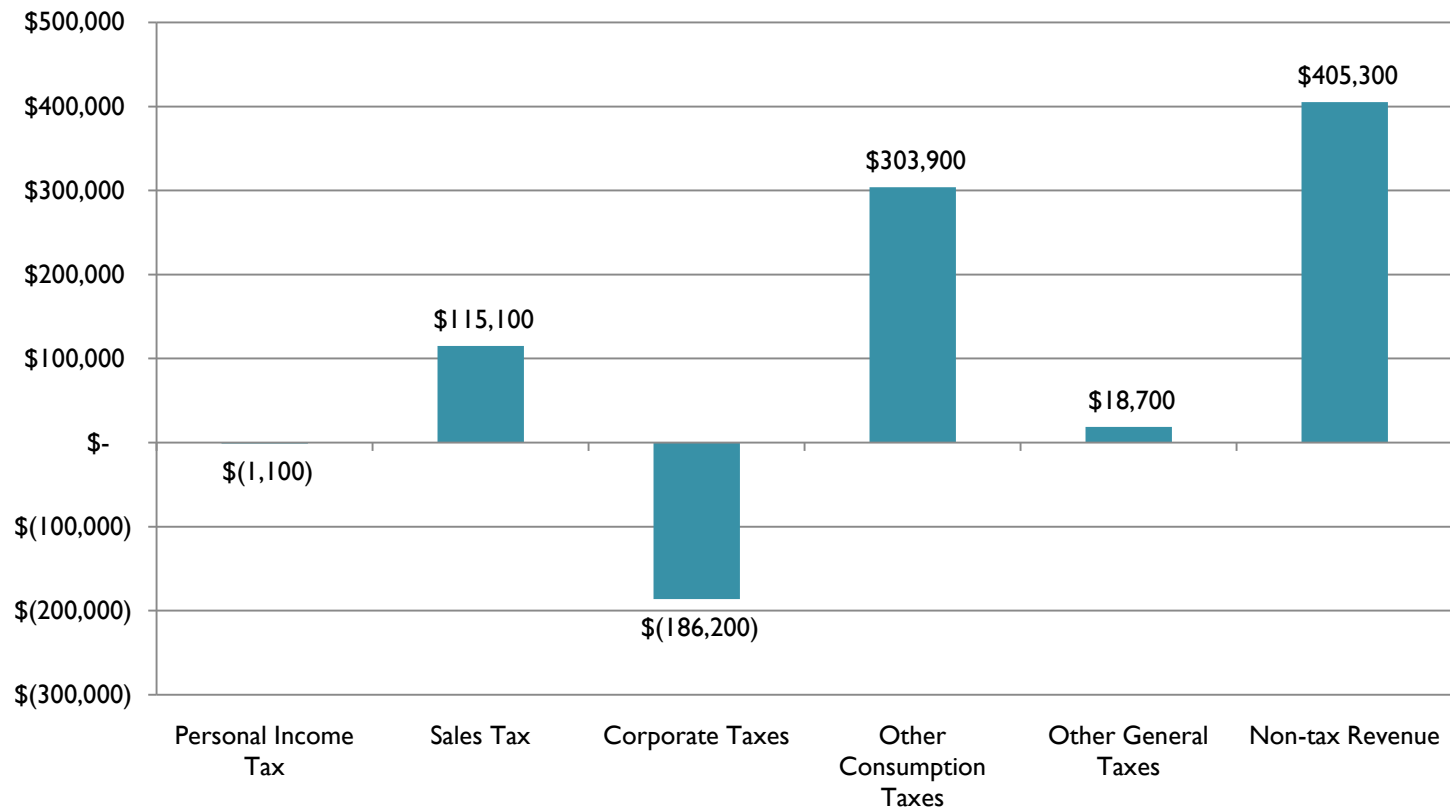


General Fund revenue

**2009-10 Proposed Revenue
\$27.3 Billion**



Revenue collections projected to increase \$656 million from 2008-09 to 2009-10



Proposed tax changes in General Fund total \$ 480 million

- New Taxes

- Severance tax on natural gas \$107 million
- Other tobacco products tax \$38 million

- Tax Increase

- Cigarette tax (\$0.10 per pack) \$61 million

- Other Tax Changes

- Eliminate sales tax discount \$75 million
- Eliminate cigarette tax transfer (MCARE) \$199 million

One time revenue of \$725 million

\$350 million - Transfer of surplus from
Health Care Provider Retention Account

\$375 million – Transfer from Rainy Day
Fund

The Future is Cloudy....

- Federal stimulus different than expected – creating confusion about how the funds can/will be used
- Pressing issues like long-term transportation funding, health care, and pensions loom
- What if tax collections are worse than expected in 2009-10?

Options not presented

- Capital stock and franchise phase-out could be postponed
- Pennsylvania could join the majority of states with a corporate income tax and adopt combined reporting