

Commonwealth of Pennsylvania
2011-12 Executive Budget

Tom Corbett
Governor

Charles B. Zogby
Secretary of the Budget

March 8, 2011

2011-12 Executive Budget



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www.budget.state.pa.us

2010-11 General Fund Budget

2010-11 General Fund Budget

When Governor Corbett took office, he faced a projected \$4.16 billion deficit

| | (Dollars in Millions) | | |
|---------------------------------------|-----------------------------------|--------------------------------------|-------------------------------|
| | <u>2010-11 Enacted Budget</u> | <u>2010-11 Mid-Year Revision</u> | <u>2011-12 Projection</u> |
| Beginning Balance | \$ (294) | \$ (294) | \$ (155) |
| Revenue Estimate | 25,587 | 25,587 | 25,869 |
| Revenue Surplus (Shortfall) | 0 | (100) | 0 |
| Total Revenue | <u>\$ 25,587</u> | <u>\$ 25,487</u> | <u>\$ 25,869</u> |
| Prior-Year Lapses | 0 | 90 | 0 |
| Funds Available | <u>\$ 25,293</u> | <u>\$ 25,283</u> | <u>\$ 25,714</u> |
| Expenditures | (28,035) | (28,275) | (29,874) |
| Federal ARRA Appropriations | 2,754 | 2,645 | 0 |
| Current-Year Lapses | 0 | 192 | 0 |
| Total Expenditures | <u>\$ (25,281)</u> | <u>\$ (25,438)</u> | <u>\$ (29,874)</u> |
| Preliminary Balance | 12 | (155) | (4,160) |
| Transfer to Rainy Day Fund | (3) | 0 | 0 |
| Ending Balance | <u><u>\$ 9</u></u> | <u><u>\$ (155)</u></u> | <u><u>\$ (4,160)</u></u> |

One-Time Revenue and Expenditure Options Used to Balance the 2010-11 Budget

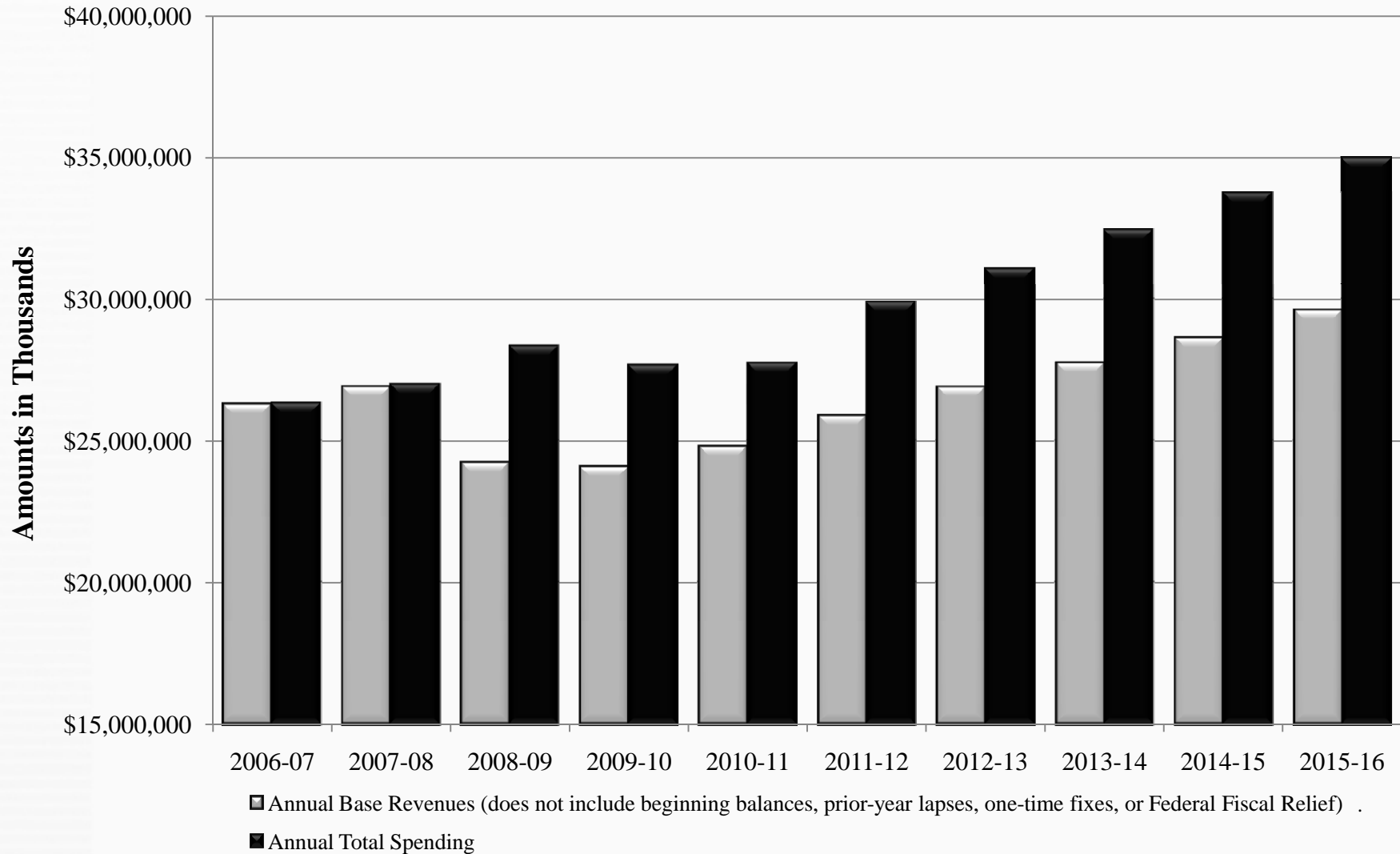
\$ 2.65 Billion - Federal Fiscal Relief

\$ 750 Million - One-Time Revenues

\$ 665 Million - One-Time Expenditure Reductions

\$ 4.1 Billion - Total

Without Fiscal Discipline, the Gap Between Spending and Revenue Will Continue to Increase



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Balancing the 2011-12 Budget

Plan to Balance the Budget

Immediate Actions Taken to Address the \$4.16 Billion Deficit

| | (Dollars in Millions) |
|--|-----------------------|
| Projected 2011-12 Deficit | \$ (4,160) |
| January 2011 Budget Freeze | 364 |
| Increase in Lapse Estimates | 100 |
| Revised Spending Needs (2010-11 and 2011-12) | 353 |
| Increase in Estimated Revenues (2010-11 and 2011-12) | 528 |
| Remaining 2011-12 Deficit to Address. | \$ (2,815) |

Plan to Balance the Budget

Actions Taken During a Line-by-Line Review of Each Program in the Budget

| | (Dollars in Millions) |
|--|-----------------------|
| Remaining 2011-12 Deficit to Address. | \$ (2,815) |
| Spending Reductions | 2,613 |
| Tax Credit Changes | 9 |
| Shift Tobacco Revenue and Programs to the General Fund . . . | 154 |
| Redirect Moving Violation Surcharges to the General Fund . . | 44 |
| Preliminary Ending Balance. | \$ 5 |

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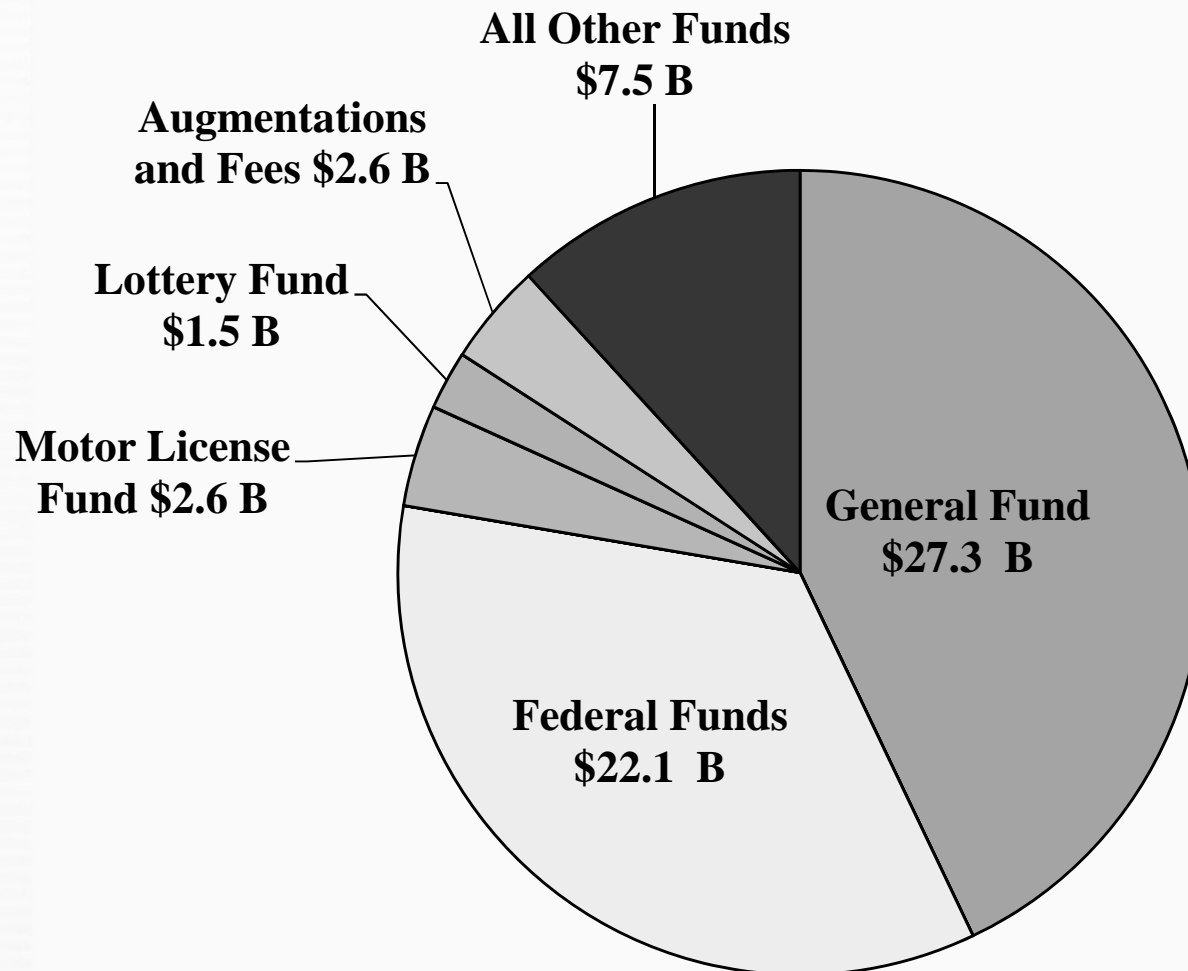
2011-12 General Fund Budget

(Dollars in Millions)

| | <u>2010-11 Available</u> | <u>2011-12 Budget</u> |
|----------------------------------|------------------------------|---------------------------|
| Beginning Balance | \$ (294) | \$ 586 |
| Revenue Estimate | 25,587 | 26,750 |
| Total Revenue | \$ 25,665 | \$ 26,750 |
| Prior-Year Lapses | 180 | 0 |
| Funds Available | <u>\$ 25,551</u> | <u>\$ 27,336</u> |
| Expenditures | \$ (28,198) | \$ (27,331)* |
| Federal ARRA Appropriations . . | 3,055 | 0 |
| Current-Year Lapses | 178 | 0 |
| Total Expenditures | <u>\$ (24,965)</u> | <u>\$ (27,331)</u> |
| Preliminary Balance | 586 | 5 |
| Transfer to the Rainy Day Fund . | 0 | (1) |
| Ending Balance | <u><u>\$ 586</u></u> | <u><u>\$ 4</u></u> |

*Total expenditures include \$324 million shifted from the Tobacco Settlement Fund. Excluding that spending, the budget actually declines by 4.2 percent from 2010-11.

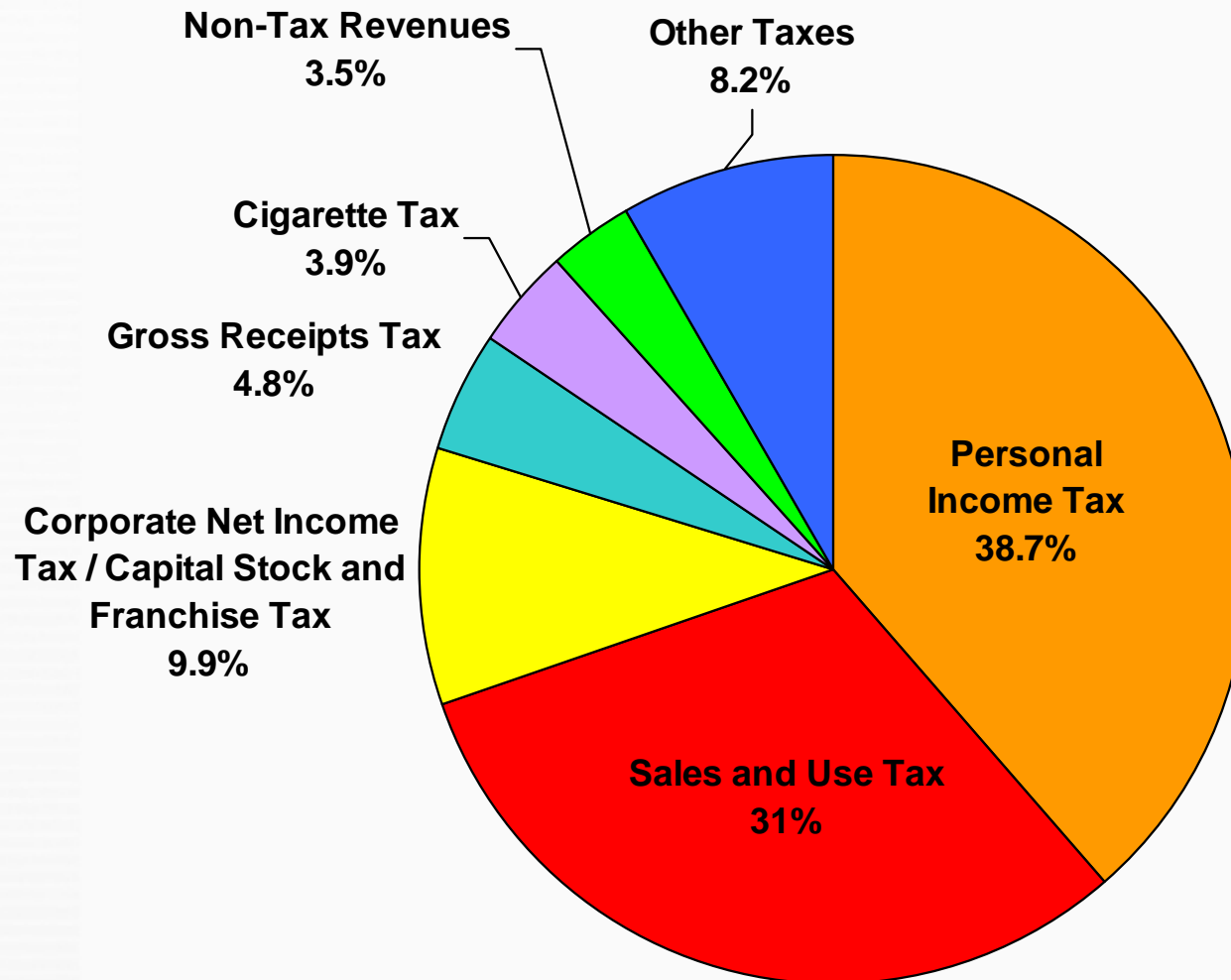
2011-12 Total Operating Budget



The total 2011-12 operating budget, including all commonwealth funds, is \$63.6 billion. The General Fund represents 43 percent of this amount.

**Total:
\$63.6 Billion**

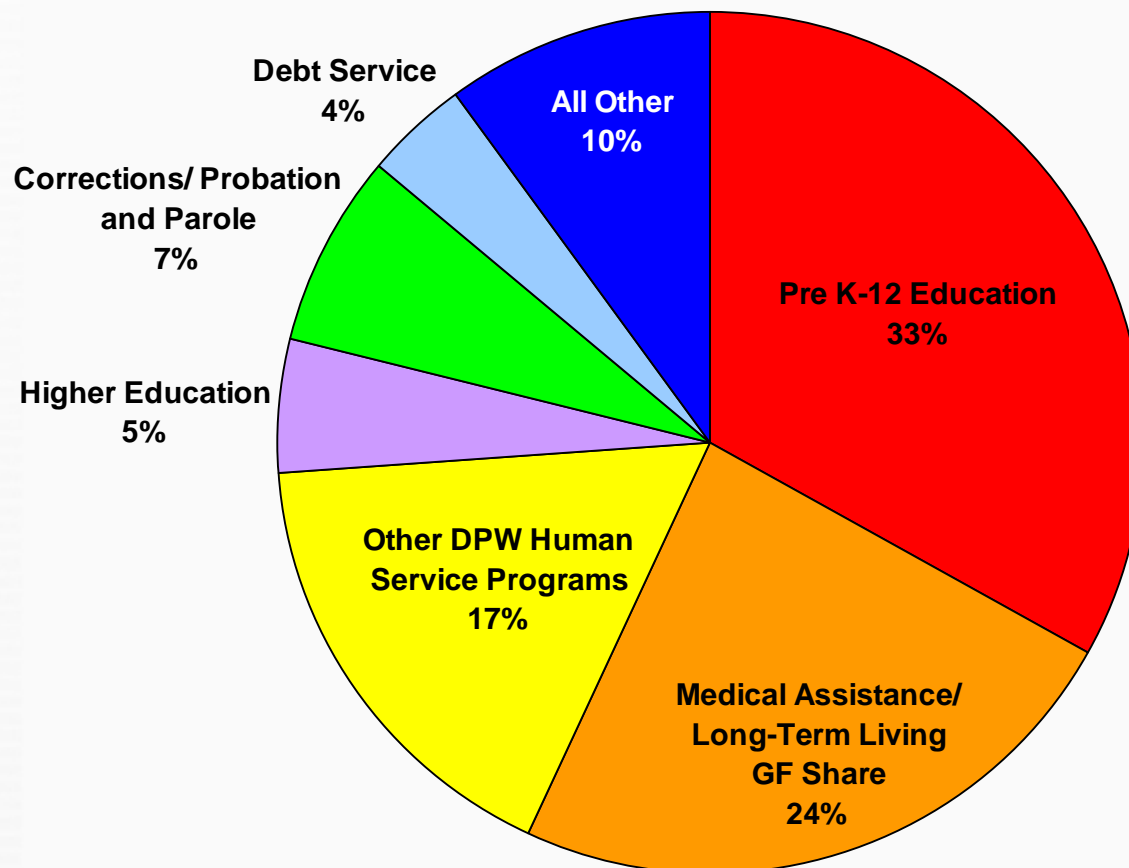
2011-12 General Fund Revenue Sources



More than two-thirds (70 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales and Use Tax.

2011-12 State General Fund Expenditures

The 2011-12 General Fund budget is \$27.3 billion, a decrease of 3.1 percent when accounting for federal stimulus funds in 2010-11.



Spending on Education, Medical Assistance / Long-Term Living, other Human Service programs, Corrections and debt service comprises nearly 90 percent of total General Fund obligations.

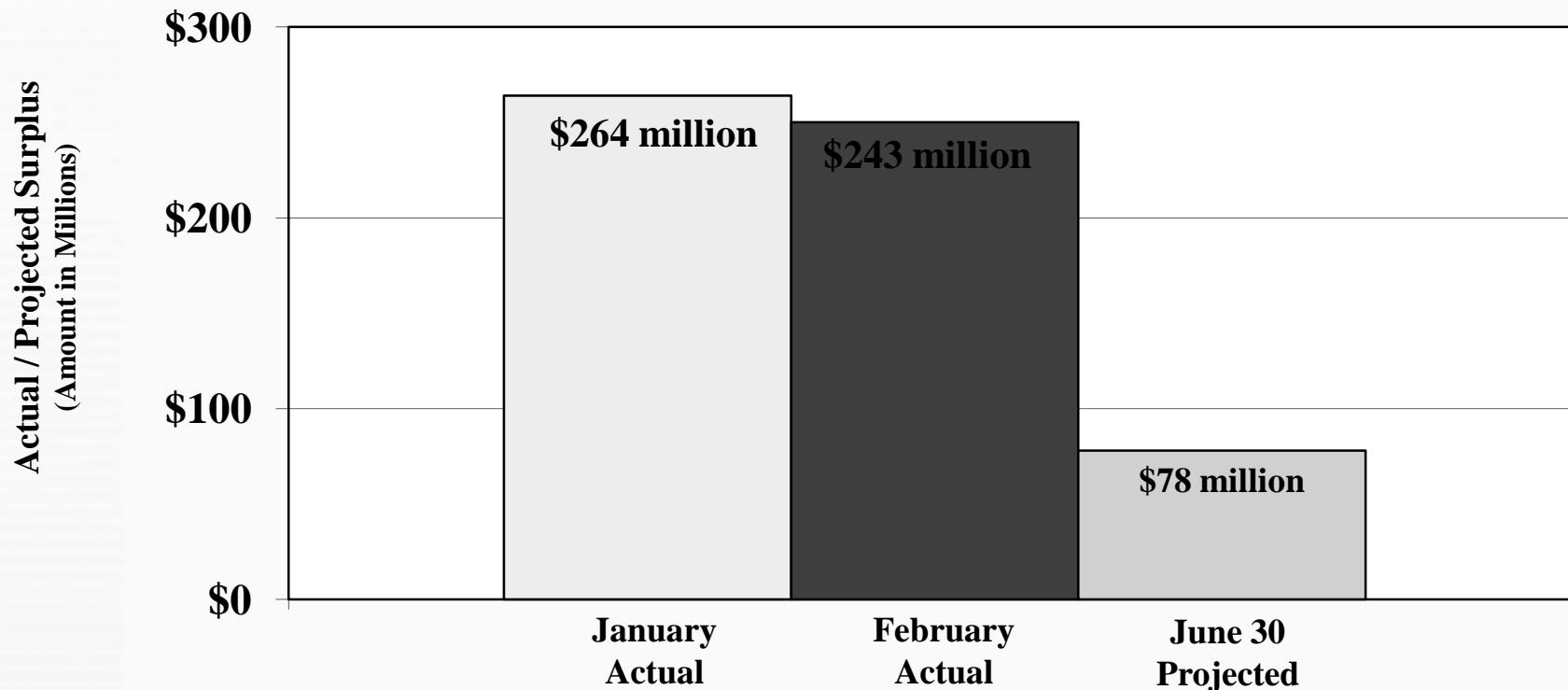
**Total General Fund Expenditures:
\$27.3 Billion**

Risks to the Plan

- State of the U.S. economy – a jobless recovery in an economy that lost nearly 8.7 million jobs in 2008 and 2009.
 - U.S. unemployment was 9.0 percent in January, down from 9.4 percent in December 2010.
 - Pennsylvania’s seasonally-adjusted unemployment rate was 8.2 percent in January, down from 8.5 percent in December 2010.
 - Nationally, real (inflation-adjusted) GDP increased at an annual rate of 2.8 percent in the fourth quarter of 2010, according to the most recent estimate released by the federal Bureau of Economic Analysis.
- Higher oil and gas prices.
- Uncertainty in revenue collections.

Risks to the Plan

Although actual General Fund revenues through the end of January 2011 were \$264 million above estimate, the revenue surplus declined to \$243 million when February revenues came in below estimate. By year-end, revenues are expected to be only \$78 million ahead of estimate, based upon current projections.



Governor's Agenda for Pennsylvania

Eliminating a structural deficit of this size required a swift and decisive response. The governor directed that all budgetary actions:

- Adhere to fiscal discipline;
- Promote limited, transparent, and effective government;
- Support free enterprise and job creation;
- Protect public health and safety;
- Fund students and promote educational excellence; and
- Maintain the human services safety net.

Adhere to Fiscal Discipline

*Ending Reliance on Budget Gimmicks and
Forcing State Government to Live Within Its Means*

Fiscal Discipline

- Maintains the governor's commitment to no new taxes or fee increases.
- Utilizes no revenue or expenditure gimmicks.
- Eliminates 103 appropriations, reduces funding for more than 150 appropriations and consolidates 55 appropriations to streamline state government.
- Conservatively estimates revenue growth based upon economic indicators.
- Resets state spending to nearly 2008-09 levels.

Promote Limited, Transparent, and Effective Government

Restoring Credibility and Faith in a Smaller State Government

Limited, Transparent, and Effective Government

- Focuses on core government functions: public health and safety, the social safety net, and education.
- Reduces the cost of general government operations by more than 2 percent, a first step towards meeting the governor's commitment to reduce administrative spending by 10 percent over four years.
- Eliminates 1,500 state positions.
- Makes government more transparent by providing more budget, expenditure, performance measurement, capital and workforce information in a user-friendly online format.
- Visit the commonwealth's new transparency website at www.pa.gov/open

Support Free Enterprise and Job Creation

Pennsylvania Works for Businesses

Support Free Enterprise and Job Creation

- Includes no tax on Marcellus Shale extraction, an industry whose investment is projected to add \$10 billion in economic activity to Pennsylvania's economy this year.
- The budget reinstates the Capital Stock and Franchise Tax phase-out – saving 101,000 job creators more than \$70 million. The phase-out will continue until the tax is eliminated in 2014.
- The 2011-12 budget maintains important tax credit programs at 2010-11 levels, including the Job Creation and Film Production tax credits, and it increases the cap on the Research & Development Tax Credit by \$15 million, to \$55 million.
- Maintains the 100 percent bonus depreciation through 2011 as recently enacted by Congress.
- Empowers the Secretary of Community and Economic Development to expedite permit reviews for critical job-creation projects.
- Addresses the need for real tort reform.

Streamlining Business Incentive Programs to Ensure Job Creation

The Department of Community and Economic Development's 2011-12 budget represents a completely new way of doing business for the department and its economic and community development partners.

This innovative proposal is governed by three guiding principles:

- **Partnerships:** Forging new partnerships with the private sector and other public entities and using DCED programs to enhance regional delivery of economic development services.
- **Performance:** Advancing program initiatives evaluated by defined metrics, which provide consistent and positive returns on investment for taxpayers.
- **Competition:** Increasing the level of competition for scarce commonwealth resources to ensure the greatest return.

Streamlining Business Incentive Programs to Ensure Job Creation

- **Discovered in PA - Developed in PA – \$10 million** – for small business and entrepreneurial assistance. Regional experts will proactively seek out businesses and direct them to the technical or financial assistance they need.
- **Pennsylvania First – \$25 million in competitive grants** – for job creation or retention, infrastructure projects and workforce development.
- **Partnerships for Regional Economic Performance – \$12 million** – to encourage regional coordination in economic development efforts, yielding improved customer service to the business community, especially small businesses.
- **Keystone Communities – \$12.5 million** – for consolidated community revitalization activities, with a focus on creating thriving downtowns as places of commerce, recreation, culture and entertainment.

Streamlining Business Incentive Programs to Ensure Job Creation

The Liberty Loan Fund:

A new economic development financing partnership, which will include the use of new, flexible financing tools to leverage additional private-sector funds for job creation. By combining the current resources of six existing funds, plus interest and loan repayments, a single economic development powerhouse will be established for the commonwealth.

The fund will combine the:

- Commonwealth Financing Authority
- Pennsylvania Industrial Development Authority
- Machinery and Equipment Loan Fund
- Pennsylvania Minority Business Development Fund
- Remaining Tobacco Settlement Fund investments
- Small Business First Fund

Protect Public Health and Safety

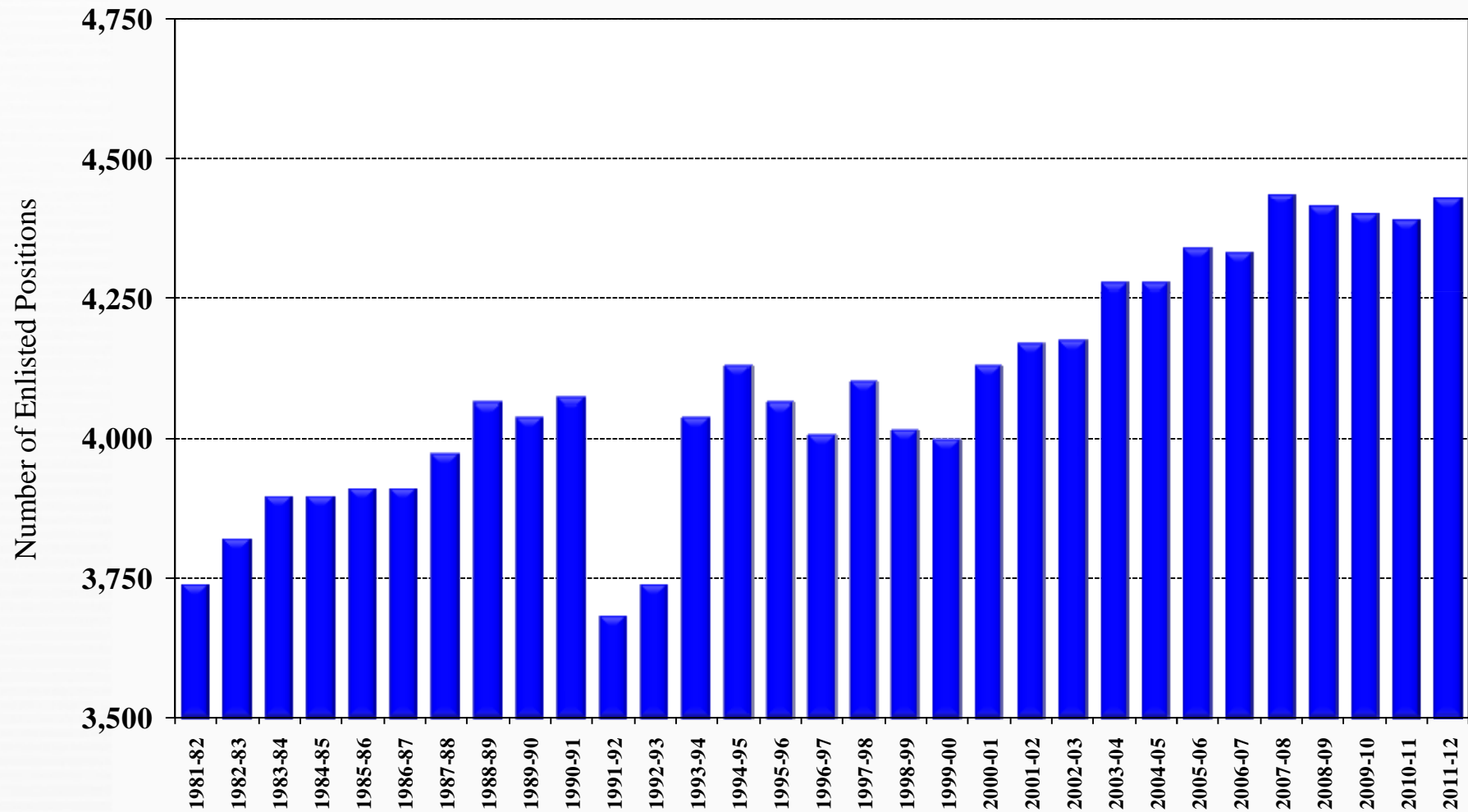
Ensuring the Safety of Pennsylvania's Citizens and Communities

Protect Public Health and Safety

The 2011-12 budget:

- Funds critical public safety programs, including 230 new State Police trooper positions supported by redirecting vehicle fine revenue.
- Maintains funding of important public health service delivery programs.
- Provides \$3.4 million for 53 new parole staff to provide offender oversight and assist with their transition into Pennsylvania's communities.
- Consolidates and streamlines criminal justice programs, including juvenile probation, violence prevention and intermediate punishment programs, to provide flexibility and improve outcomes.
- Sustains or increases funding for veterans and troop programs.

State Police Filled Trooper Levels

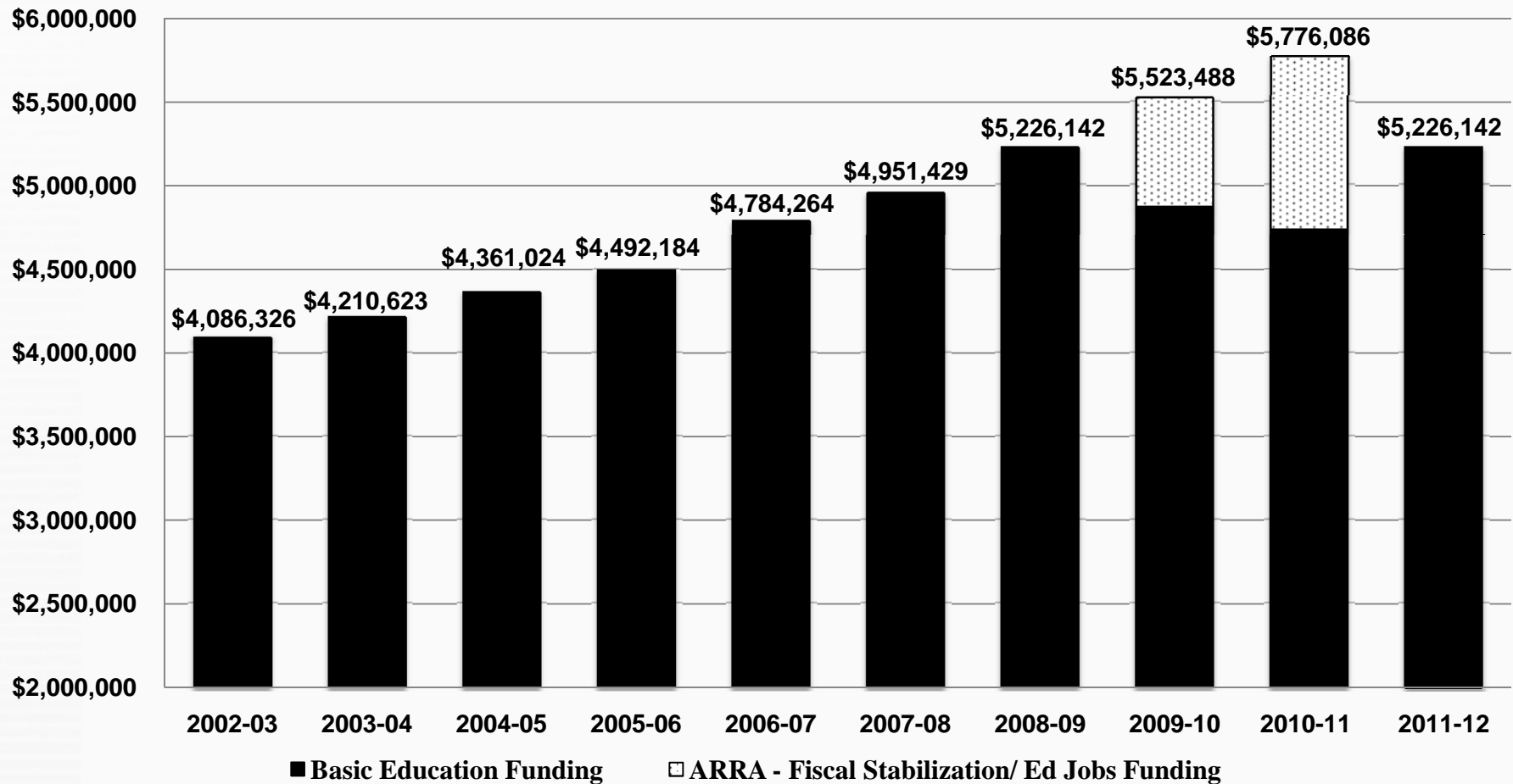


Fund Students and Promote Educational Excellence

Giving School Districts Tools and Flexibility To Improve Student Performance

Sustainable Basic Education Funding

(Dollar Amounts in Thousands)



Funding Schools and Students

- **Freeze Educator Salaries**
Recommend a one-year salary freeze on all school district personnel to save an estimated \$400 million.
- **Eliminate State Support for Master's Degree Salary Bumps and Tuition Reimbursement**
Abolish the current practice of master's salary bumps and tuition reimbursement for teachers to save or redirect approximately \$200 million.
- **Track Actual School Spending**
Ensure schools and students with the greatest educational challenges receive appropriate support by reforming existing annual financial reporting.
- **Voter Approval of School Budgets**
Require voter approval of school budgets that would raise property taxes above the rate of inflation.

Maximize Flexibility and Mandate Relief for Local School Districts

- **Allow Economic Furloughs**

Allow districts to retain the most effective instructional personnel without regard for seniority when economic furloughs are necessary.

- **Increase Bid Size Limits**

Restructure the current thresholds for competitive bidding requirements to alleviate excessive processes and reduce costs.

- **Restructure Advertising Requirements**

Permit school districts to advertise via the Internet and community-based newspapers in lieu of the more expensive legal notices in broad-circulation newspapers to help control costs.

Maximize Flexibility and Mandate Relief for Local School Districts

- **Revise School Nurse Requirements**

Change the current mandate that school nurses be certified by completing an additional certification course at a Pennsylvania college or university to permit districts to hire nurses who complete a program of in-service training in school nursing approved by the Pennsylvania Department of Education.

- **Align Public School Requirements with Charter Schools**

Relieve additional mandates placed on public schools to allow the schools to operate with increased efficiency.

- **Embrace Performance-Based Accountability**

Enable waivers of state laws and regulations, except for student health and safety, if the waiver increases student achievement gains.

Expand Quality Educational Options for Families and Students

- **Provide Choices for Students Attending Failing Public Schools**
Permit funding to be available for students in failing schools to enroll in achieving schools.
- **Improve Dual Enrollment Opportunities**
Unbundle education funding so high school students can use a portion of their basic education dollars to earn post-secondary credit through dual enrollment.
- **Grow the Education Improvement Tax Credit (EITC)**
Restore the cuts made to the EITC and raise the total credits available to \$75 million to increase the amount of scholarships, programs and advanced learning opportunities this resource provides to Pre-K through 12th grade students in public and private schools.
- **Enhance Charter School Quality and Accountability**
Strengthen ethical and performance standards and establish an independent charter school board to enhance the performance of charter schools and provide more students with the ability to pursue learning opportunities that are better suited to meet their needs.

Promote Effective Teachers and Leaders

- **Launch Merit-Based Pay Systems**

Incentivize excellence for teachers by incorporating student achievement data and results into evaluations that are tied to compensation received in addition to base pay.

- **Initiate Tenure Reform**

Review benchmarks that measure long-term teacher effectiveness and implement a permanent rating system.

- **Create Alternative Certification Options**

Expand alternative pathways to teaching and leadership by allowing field professionals and other qualified individuals to enter the profession through approval by the Department of Education.

Maintain the Human Services Safety Net

Helping Pennsylvanians Achieve Self-Sufficiency

Welfare Program Reforms

The 2011-12 budget takes the first steps towards reforming the public welfare system. Several broad-based, cost-containment reforms will save millions of dollars in state funds.

The reforms must:

- Address consumer needs for quality, flexibility and service coordination
- Promote competition among service providers
- Empower consumers through a focus on choice, personal responsibility and employment
- Enhance financial integrity for eligible consumers

Sensible Reforms

Rebalance PA's Long-Term Living System – *Savings: \$40.5 million*

Implement a variety of home and community-based service reforms to

- Improve service coordination
- Expand consumer-directed care
- Maximize utilization of federal programs

Care Management – *Savings: \$55.9 million*

Redesign the Health Care Plan to

- Broaden service options
- Focus on personal responsibility, prevention and wellness
- Optimize health outcomes

Sensible Reforms

Smart Purchasing – *Savings: \$165.5 million*

- Standardize rate setting
- Create incentives for innovation and promote competition
- Link payment to quality outcomes

Program Integrity – *Savings: \$46.6 million*

- Rightsize services to make PA's programs consistent with other state Medicaid programs
- Ensure access to programs is limited to those who are eligible and truly in need

Fair Share – *Savings: \$56.1 million*

- Preserve the safety net for those truly in need
- Maintain fiscal accountability

Sensible Reforms

Fraud and Abuse Activities

- Enhance coordination between the Department of Public Welfare and the Office of Inspector General to combat fraud, waste, misconduct, and abuse
- More aggressive efforts to ensure eligibility prior to benefits being paid
- Increase provider audits, more efficiently use non-medical staff to review provider claims, and increase the review of medical services in hospital settings
- Expand nursing facility recovery audit program, including automated records review

Challenges Ahead

The 2011-12 budget is responsive to the fiscal realities and addresses our challenges head on, yet this budget is only a first step to addressing the major cost drivers in the budget:

- **Escalating pension obligations,**
- **A continued rise in health care costs, and**
- **Growth in Corrections' costs.**

Future budgets will build upon the initial steps this budget takes to enhance Pennsylvania's competitiveness and set Pennsylvania on a new course for prosperity by

- **Making continuing improvements in promoting jobs and job growth and**
- **Investing in students and education.**