

# Message From The Chair

December 16, 2005

## Re: Review of Governor's MidYear Budget Briefing

Dear Colleague:

On Wednesday, December 14, 2005, the Budget Secretary presented the Mid-Year Budget Briefing. Some discussion items regarding revenue projections and spending issues are important to highlight. The Administration projects \$240 million in additional funds for 2005/06 that include:

- \$145 million in surplus revenues;
- \$85 million in prior year lapses (unspent funds from prior years); and
- \$10 million in current year lapses (spending freezes from the current year).

The Administration proposes spending this additional money on a \$20 million earmark of Utility Gross Receipts tax revenue for LIHEAP and a \$215 million Supplemental Appropriation package that includes the following:

- \$190 million for Medical Assistance, reflecting unanticipated costs for utilizing managed care (\$70 million) and long-term care services (\$120 million);
- \$20 million for Cash Grants;
- \$3 million for PHFA Homeowners Emergency Mortgage Assistance (HB 1539 signed December 16); and
- \$1.6 million for increased death benefits for National Guard members and public safety workers, reflecting costs due to the benefit expansions enacted subsequent to the 2005/06 General Fund appropriation act (SB 1034 presented to the Gov. December 15)

## REVENUES

It is premature to accurately predict the revenue surplus. Through November, General Fund revenue stood at \$92 million above the official estimate, with half of the overage (or \$46.5 million) reflecting one-time revenue from Pennsylvania's share of the MCI-WorldCom tax settlement reached in October with sixteen other states. The 2005/06 surplus will likely be higher than \$145 million given the current revenue status, which requires only \$52 million to achieve the administration's year-end prediction. Reasonable conclusions about a year-end revenue surplus are difficult until we see how holiday sales perform at the end of January and how final payments look for personal income tax and corporate net income tax in March and April. While receipts in excess of the administration's predictions are likely, the current overage does not reflect extraordinarily healthy economic conditions. In fact, economists currently predict that annual economic growth measured by GDP peaked in 2004 at over four percent and will decline to about three percent over the long term.

**We will issue a detailed mid-year General Fund revenue report next month after December revenues are tallied**, which will provide a better picture on revenue trends and the fiscal health of the Commonwealth. Historically, December is an important tax collection month, with a large percentage of corporate taxpayers making their final quarterly estimated payments and sales tax receipts reflecting early holiday sales in November.

*continued*



**Rep. Dwight Evans, Democratic Chairman  
House Committee on Appropriations  
Miriam A. Fox, Executive Director  
717-783-1540**

## EXPENDITURES

Medical Assistance (MA) continues to present significant fiscal pressures for the Commonwealth. Despite the cost containment measures enacted in the current General Fund budget, unanticipated growth in service utilization and provider costs have forced the Administration to request a \$190 million supplemental appropriation for 2005/06. Moreover, the factors driving this supplemental have long term consequences and will add to the base costs for the MA program in the 2006/07 budget.

The 2005/06 budget included a number of MA initiatives designed to generate significant savings, such as:

- limiting adult benefits;
- establishing a statewide preferred drug list;
- reducing pharmacy reimbursement rates for brand name and generic prescription drugs;
- charging monthly premiums for loophole children;
- claiming federal Medicaid funds for the academic medical centers;
- increasing third party liability collections; and
- decreasing fraud and abuse.

The implementation of these and other initiatives have been mixed, with several initiatives missing their targeted effective dates and thus resulting in lower than anticipated savings. In some cases, namely the initiatives for loophole premiums and for the academic medical centers, implementation has been delayed pending federal approval (which may or may not be granted).

Even with these adjustments, the Administration claims to be on track to successfully implement the various cost containment initiatives supporting the current budget. In order to assess this claim, we have sent a letter to the Administration requesting detailed information about the status of each initiative. **Next month we will issue a Medical Assistance update** that reports on the status of the 2005/06 initiatives as well as the major funding and cost factors which will have consequences on the 2006/07 budget that the Governor presents in February.

The Commonwealth faces other budgetary risks, including:

- Whether the January 2006 implementation of the new federal Medicare Part D prescription benefit, effective January 2006, will generate the anticipated \$94 million savings for the Lottery Fund
- How the final federal budget reconciliation provisions will impact Pennsylvania's health and human service programs (i.e, Medical Assistance, TANF, and CHIP)

A complete copy of the Governor's Mid-Year Budget Briefing is attached and also available at the following web address link: [http://www.budget.state.pa.us/budget/lib/budget/2005-2006/midyear/dec\\_14\\_2005\\_legislative\\_briefing.pdf](http://www.budget.state.pa.us/budget/lib/budget/2005-2006/midyear/dec_14_2005_legislative_briefing.pdf).

If you have any questions, please do not hesitate to contact my office.




Attachment



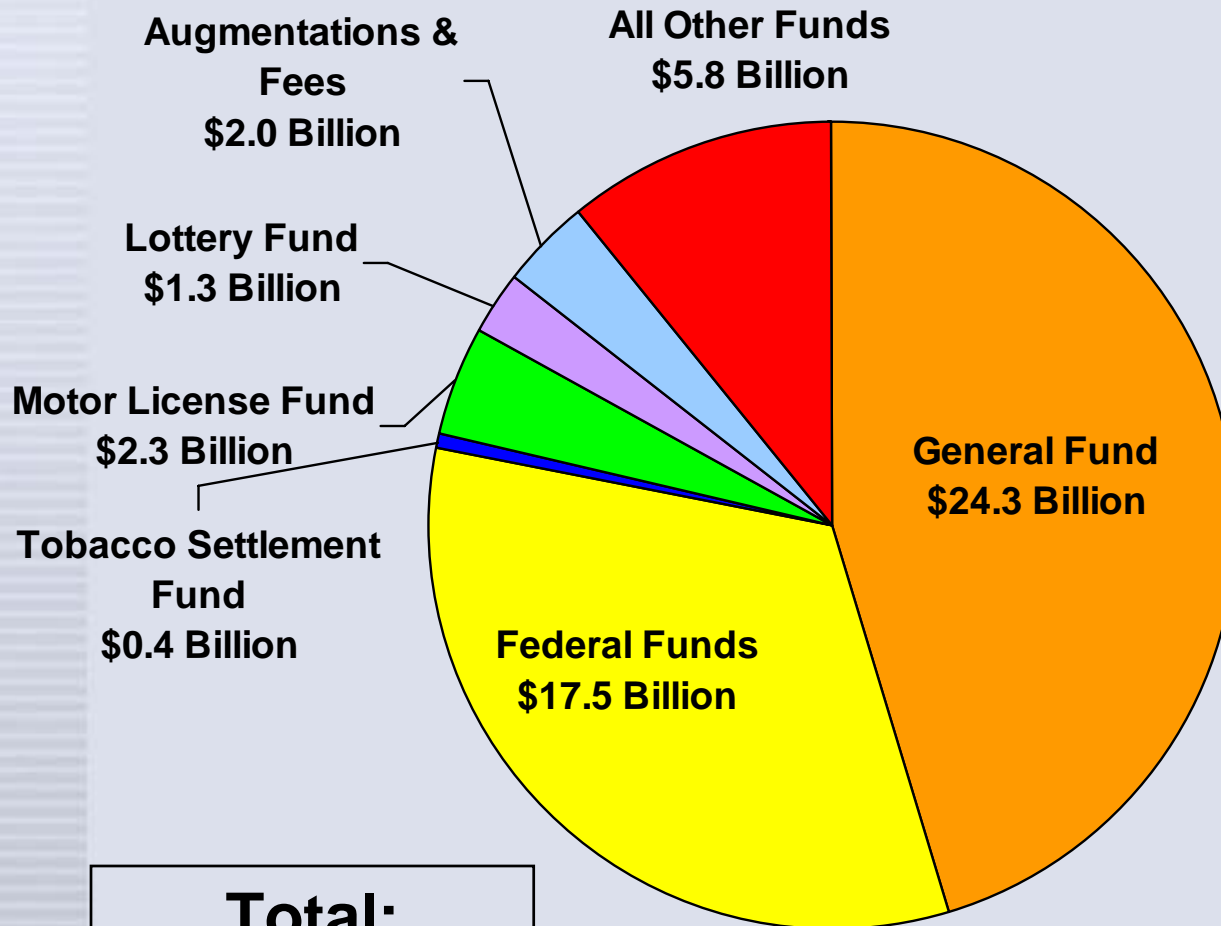
Governor's Mid-Year Budget Briefing  
December 14, 2005

*Edward G. Rendell*  
*Governor*



# 2005-06 Budget Overview

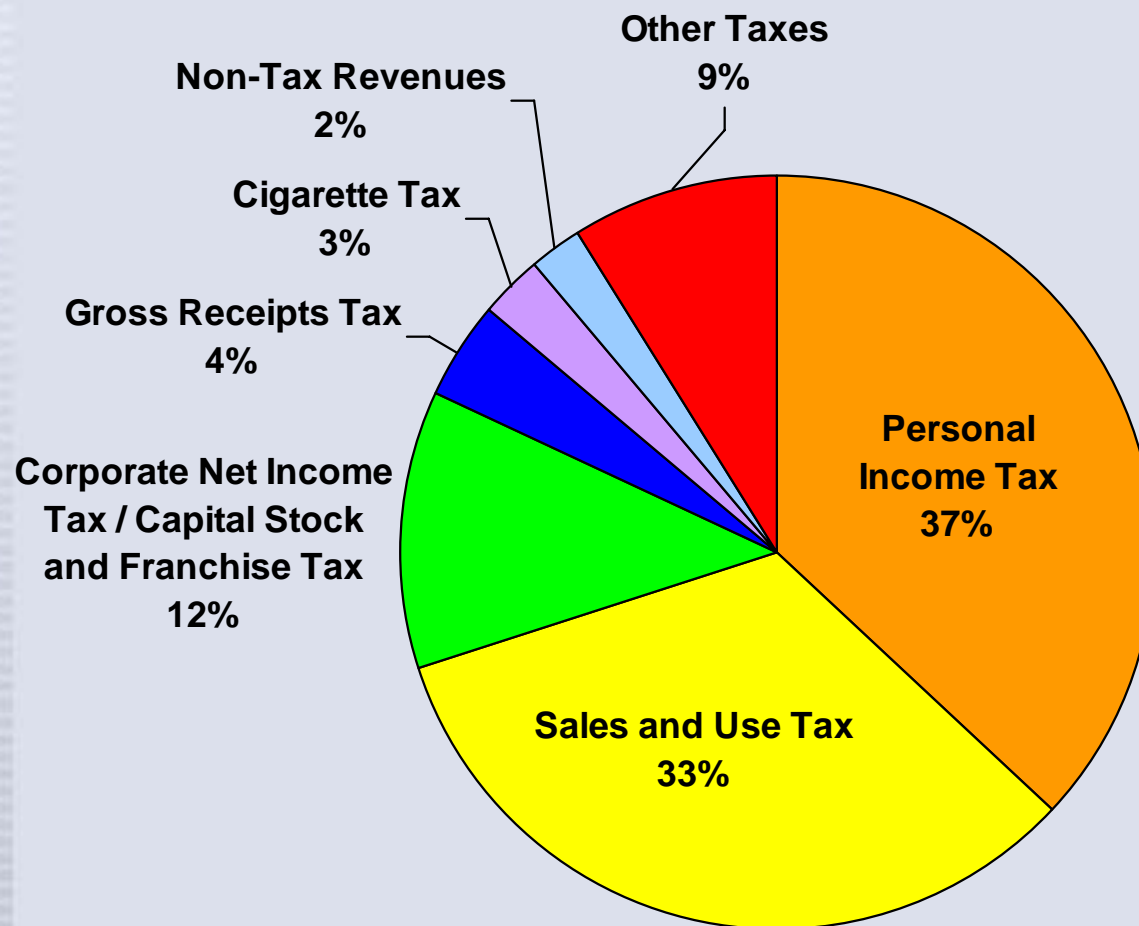
# 2005-06 Total Operating Budget



*The total Fiscal Year 2005-06 operating budget, including all Commonwealth funds, is \$53.6 billion. The General Fund represents more than 45 percent of this amount.*

**Total:  
\$53.6 Billion**

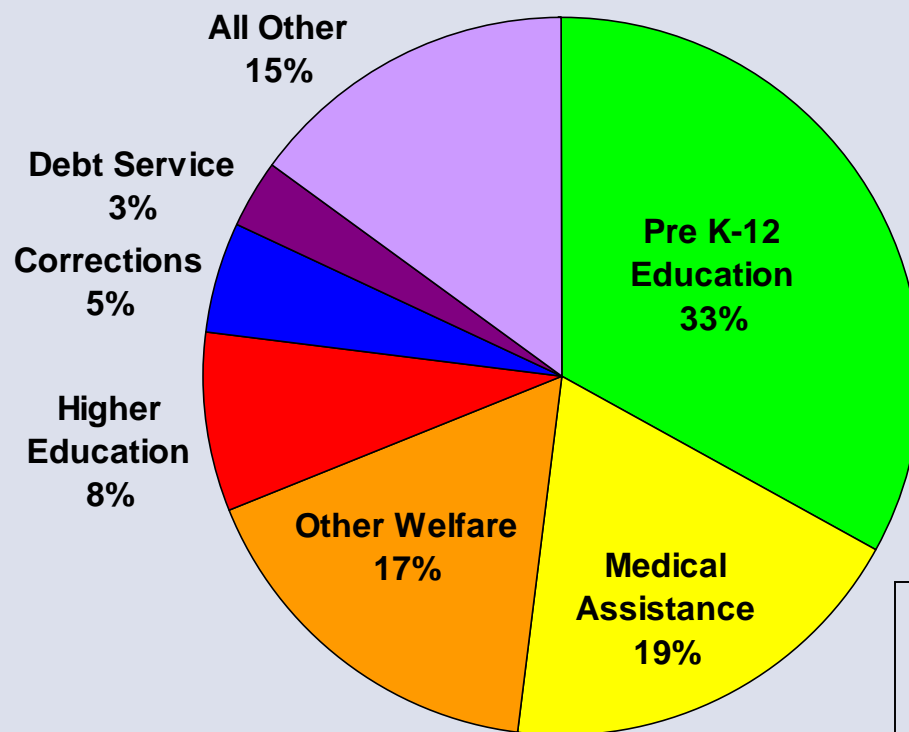
# 2005-06 General Fund Revenue Sources



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

# 2005-06 General Fund Expenditures

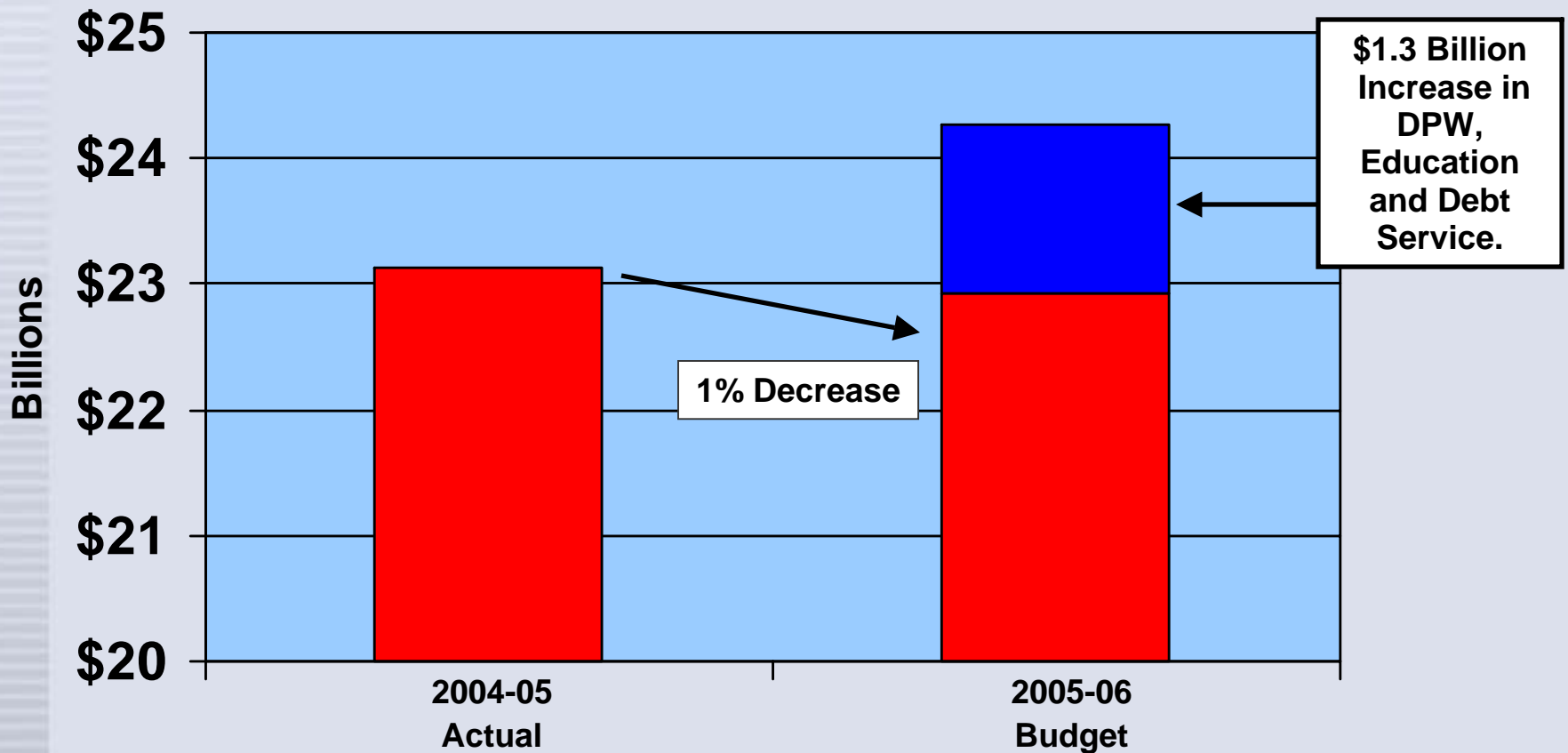
*The enacted General Fund budget increases State spending by \$1.2 billion, or 5.1 percent, from the previous year. Adjusting for the loss of \$378 million in non-recurring Federal Fiscal Relief Pennsylvania received in 2004-05 but not in 2005-06, the net increase is \$795 million, a 3.4 percent increase from the previous year.*



**Total Expenditures:  
\$24.3 Billion**

# Growth in 2005-06 Expenditures

*If increases for Public Welfare, Education, and Debt Service (including replacement of eliminated 2004-05 Federal fiscal relief funds) are removed, 2005-06 expenditures actually decline by 1 percent relative to the 2004-05 budget.*



# 2005-06 General Fund Expenditures

*Removing increases for education and welfare and replacing non-recurring Federal fiscal relief funds used to fund a portion of debt service, the budget represents a 1 percent net decrease in funding for all other Commonwealth agencies and programs.*

	<u>(in millions)</u>		
	<u>2004-05</u>	<u>2005-06</u>	<u>Difference</u>
Basic Education .....	\$ 7,816	\$ 8,092	\$ 276
Higher Education .....	1,884	1,904	20
Medical Assistance .....	4,208	4,542	334
Other Public Welfare .....	3,700	4,052	352
Debt Service .....	400	712	312
Corrections .....	1,338	1,346	8
All Other .....	3,759	3,630	- 129
<b>Total .....</b>	<b>\$ 23,105</b>	<b>\$ 24,278</b>	<b>\$1,173</b>

*Note: In 2004-05, an additional \$378 million in Federal Fiscal Relief funds was used to offset the Commonwealth's debt service costs.*

# 2005-06 General Fund Financial Statement

Enacted

(in Millions)

	<u>2004-05</u> Actual	<u>2005-06</u> Enacted
Beginning Balance . . . . .	\$ 77	\$ 365
Receipts . . . . .	23,309	23,915
Prior Year Lapses . . . . .	97	. . . .
Funds Available . . . . .	<u>\$ 23,483</u>	<u>\$ 24,280</u>
Expenditures . . . . .	\$ - 23,105	\$ - 24,278
Current Year Lapses . . . . .	51	. . . .
Preliminary Balance . . . . .	<u>\$ 429</u>	<u>\$ 2</u>
Transfer To Rainy Day Fund . . . . .	-64	- 1
Ending Balance . . . . .	<u><u>\$ 365</u></u>	<u><u>\$ 1</u></u>

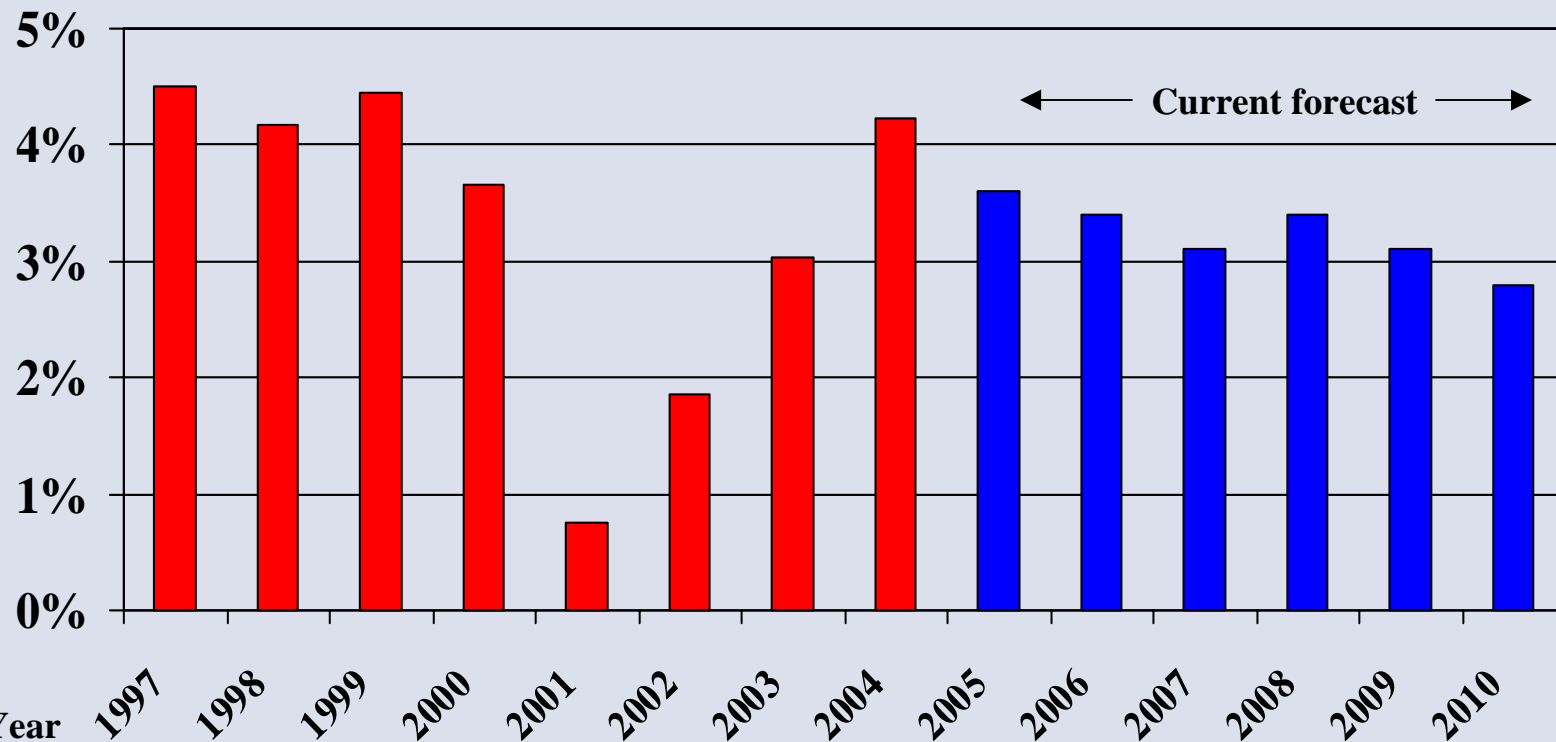


# Economic Outlook

# Real U.S. Gross Domestic Product

Annualized Rate

*In February 2005, analysts forecast calendar year 2005 GDP growth would be 3.5 percent. Current GDP forecasts for 2005 estimate the annualized growth rate at 3.6 percent. Economic forecasting firms project that peak GDP growth occurred in 2004 and that real U.S. GDP growth will slow, staying close to 3 percent annually through 2010.*

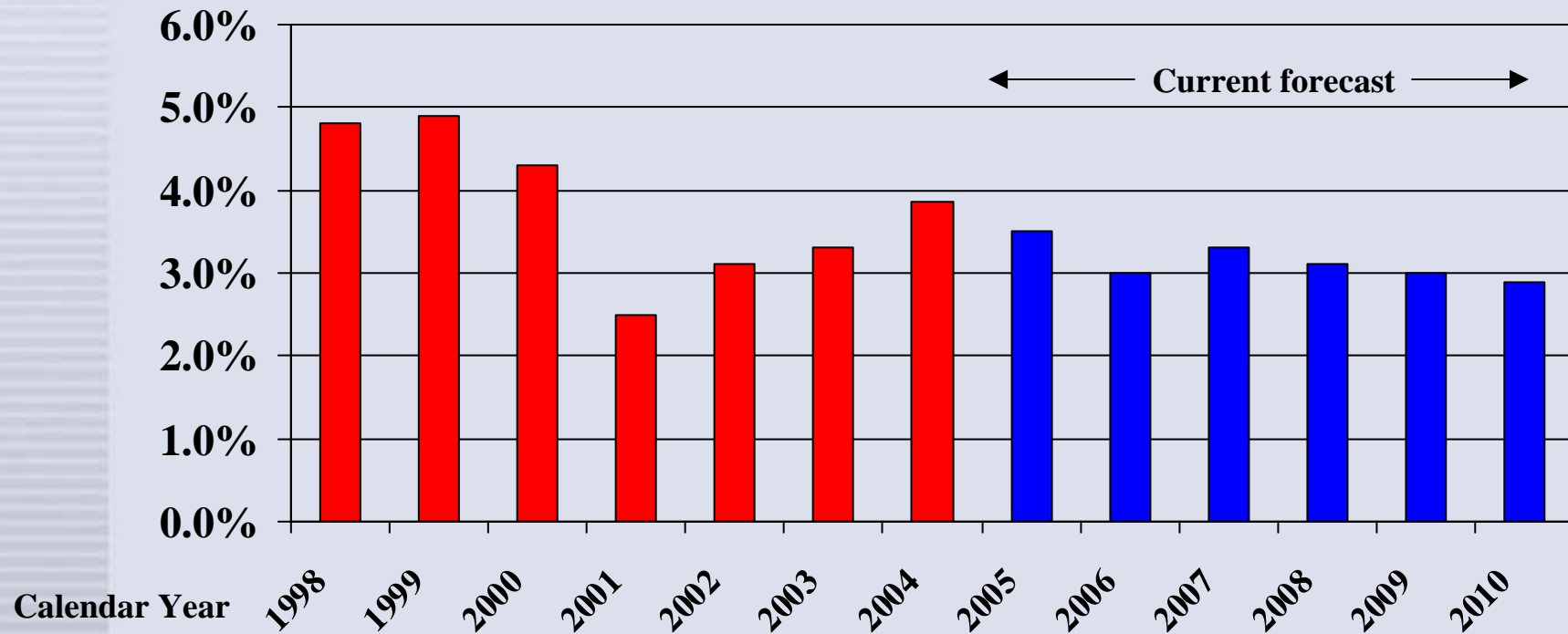


Calendar Year

# U.S. Personal Consumption

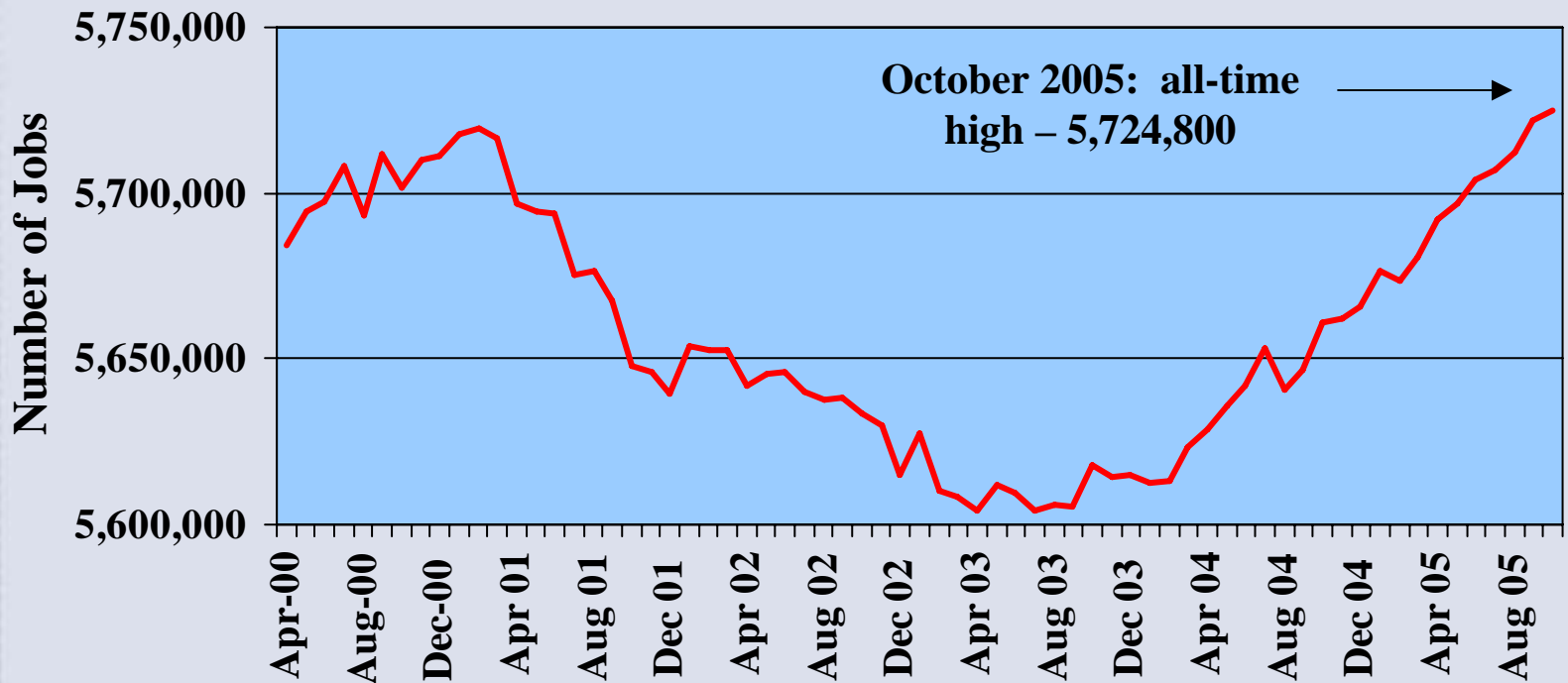
## Annual Average Growth


*In February 2005, analysts forecast 2005 annual average growth in personal consumption would be 2.9 percent. Current forecasts project personal consumption growth to be 3.5 percent. Economic forecasting firms project that peak Personal Consumption Expenditure growth occurred in 2004 and that growth rates will now slow, staying close to 3 percent through 2010.*



# Pennsylvania Job Growth

*The brightest spot in the economic outlook for Pennsylvania is job growth. In October 2005, Pennsylvania reached a historic high in the number non-farm jobs, seasonally adjusted. In November, the unemployment rate dropped to 4.6 percent - the lowest level in more than four and a half years. Since January 2003, the PA economy has generated a net increase of 97,400 jobs. State investments, including the Governor's Economic Stimulus Package, have been a major factor behind the turnaround.*





## Economic Outlook – Causes for Concern

- “...Consumers have yet to see the worst for heating costs; consumer natural gas prices are likely to be up about 50 percent this winter.” *Global Insight – November 2005*
- “Real consumer spending growth should be close to zero in the fourth quarter – mainly due to a plunge in auto sales.”  
*Global Insight – November 2005*
- “...the underlying trend remains for slower economic growth, as the housing market cools and consumer spending growth eases.” *Global Insight – November 2005*
- “A broad-based acceleration in inflation is possible given that the economy is operating at near capacity.”  
*Economy.com – October 2005*

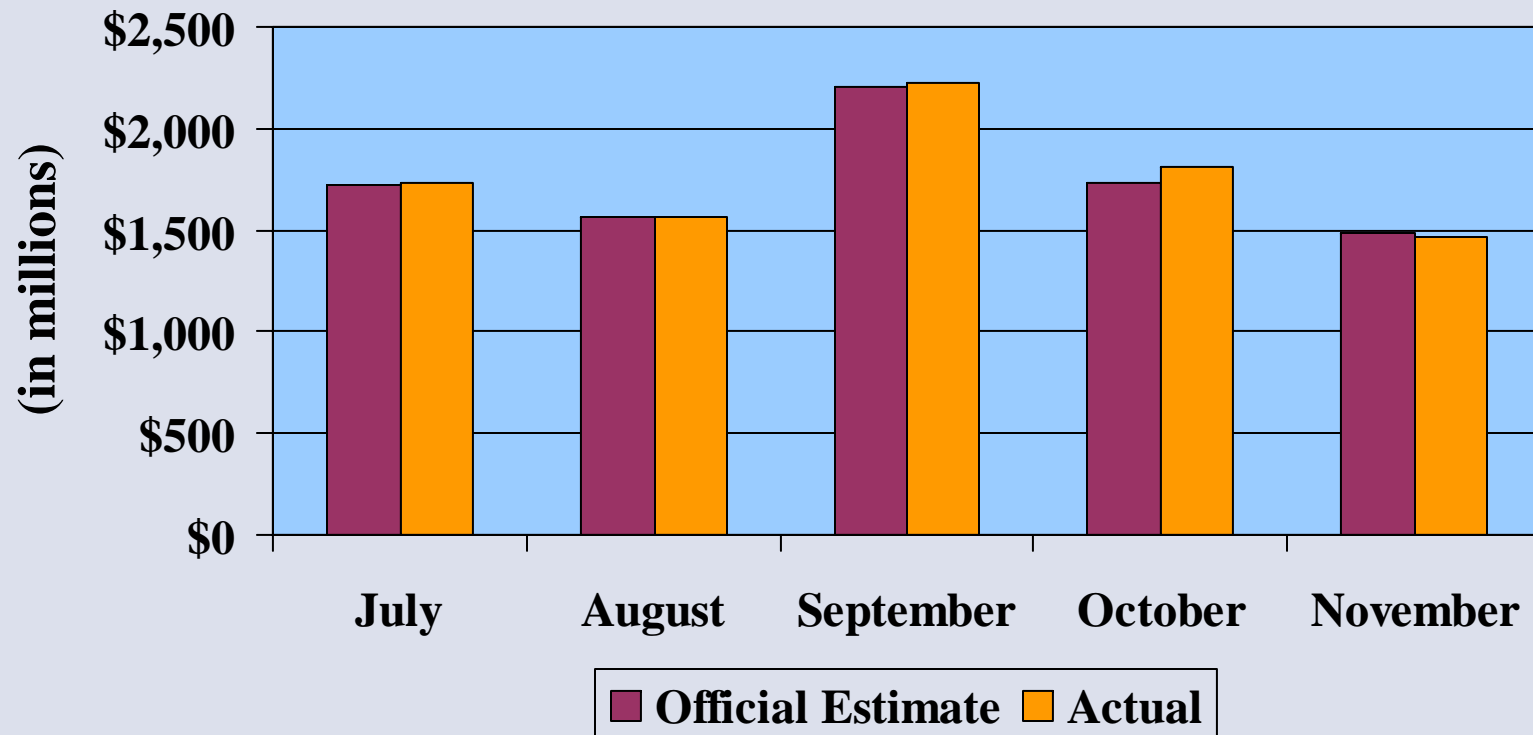


# General Fund Revenues

# General Fund Revenues

2005-06 Forecast vs. Actual Collections

*Year-to-date General Fund revenues are within \$92 million, or 1.1 percent, of official estimates through November.*



# Year-to-Date General Fund Revenues

*While total Commonwealth revenues closely tracked official estimates through November, several categories of revenues lagged official estimates by more than \$61 million, including Sales Tax – Motor Vehicle Sales, Escheats and Inheritance Tax. Revenue shortfalls in these categories have been offset by higher-than-estimated collections in Personal Income, Business/Corporate and Real Estate Transfer taxes.*

(dollars in thousands)

Revenue Source:	YTD Est.	YTD Actual	\$ Diff	% Diff	YTD Est. as % of Full Yr. Est.
Sales Tax - Motor Vehicle Sales	\$ 548,600	\$ 522,574	(\$26,026)	-4.7%	44%
Escheats	(3,100)	(17,688)	(14,588)		-2%
All Other Taxes & Revenues	136,600	126,942	(9,658)	-7.1%	1%
Inheritance Tax	303,400	295,342	(8,058)	-2.7%	40%
Licenses & Fees	32,200	29,439	(2,761)	-8.6%	26%
Sales Tax - Non-Motor Vehicles	2,960,800	2,962,277	1,477	0.0%	44%
Cigarette Tax	329,700	335,888	6,188	1.9%	39%
Treasury Earnings	53,200	59,480	6,280	11.8%	41%
Real Estate Transfer Tax	223,800	248,051	24,251	10.8%	57%
Personal Income Tax	3,246,800	3,294,593	47,793	1.5%	38%
Business/Corporate Taxes	<u>886,100</u>	<u>953,137</u>	<u>67,037</u>	7.6%	19%
<b>TOTAL</b>	<b>\$8,718,100</b>	<b>\$8,810,035</b>	<b>\$91,935</b>	<b>1.1%</b>	



# General Fund Revenue Collections

*One-time revenues comprise \$62.5 million, or more than two-thirds, of the \$92 million in revenues collected in excess of the official revenue estimate for the current fiscal year. When collections are adjusted for these one-time settlements, recurring General Fund revenues are only \$29.5 million, or 0.3 percent, above the official estimate.*

## **Non-recurring revenue collections**

- \$46.5 million unanticipated Gross Receipts Tax settlement from a single corporation.
- \$16 million unanticipated Corporate Net Income Tax settlement from a single corporation.

## **Projected events that will depress balance-of-year collections**

- \$20 million in revenue losses from the transfer of up to 1 mill of the Gross Receipts Tax to the Low-Income Home Energy Assistance Program (LIHEAP).

# National Trends in State Tax Revenue Growth

Rates of Revenue Growth – Third Quarter 2005 Compared to Third Quarter 2004

*Nationwide, states are generally realizing healthy revenue growth that is increasing faster than the rate of inflation. In Sales Tax and Personal Income Tax, Pennsylvania is achieving rates of growth similar to the nationwide median. However, Pennsylvania's rate of growth for the Corporate Net Income Tax is nearly 50 percent lower than the median growth other states are experiencing, additional evidence that Pennsylvania's Corporate Net Income Tax needs to be reformed.*

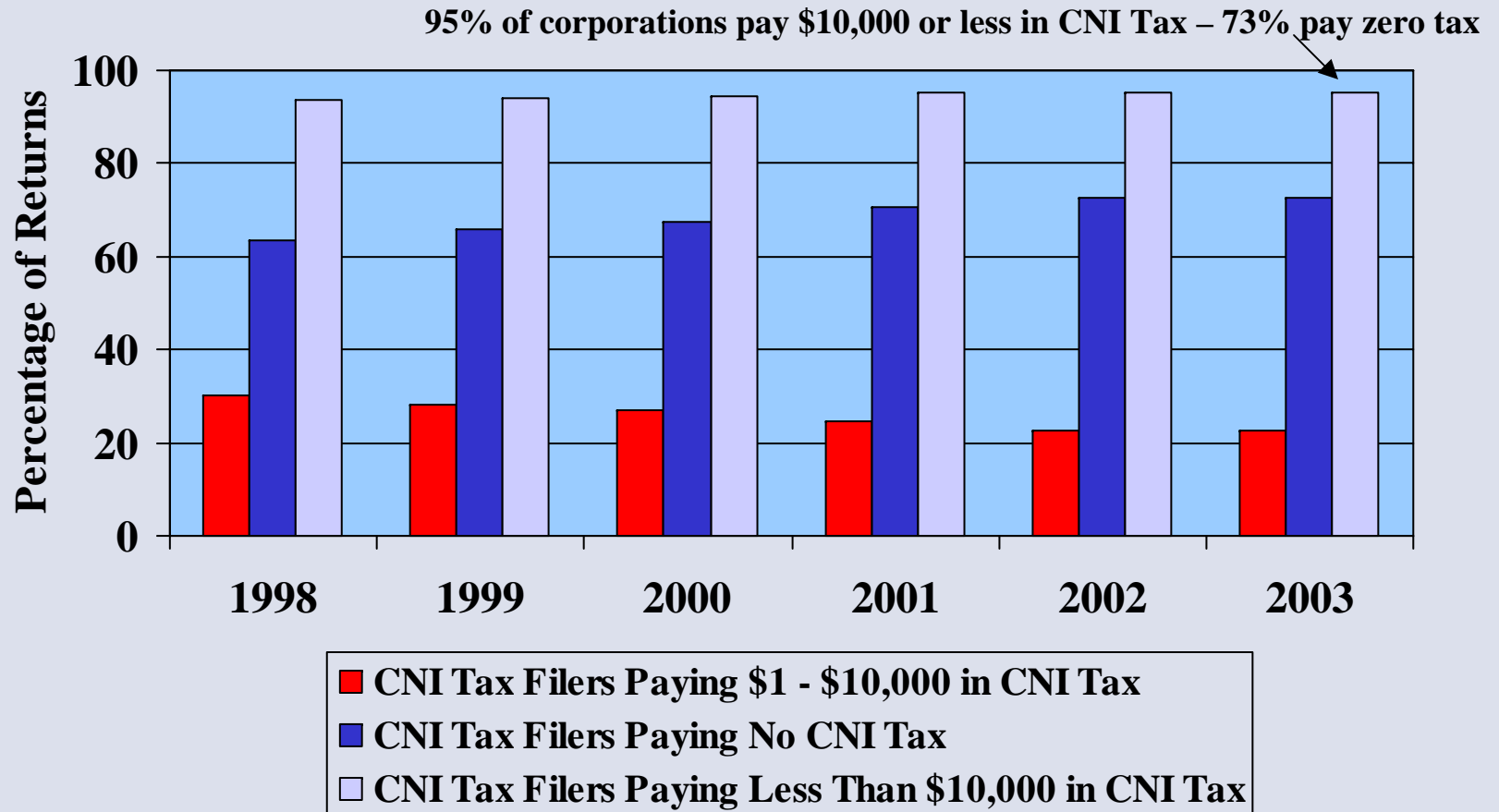
	<b>Sales Tax</b>	<b>Personal Income Tax</b>	<b>Corporate Net Income Tax</b>
Median (among states that levy)	5.9%	8.3%	34.6%
Pennsylvania	5.5%	7.7%	17.8%
States in sample	41	38	42
States with higher growth than PA	21	21	35
Percentage of states in sample higher than PA	51%	55%	83%

**Source: Federation of Tax Administrators**

*Note: no data from Louisiana, Missouri, New Mexico and Wyoming*

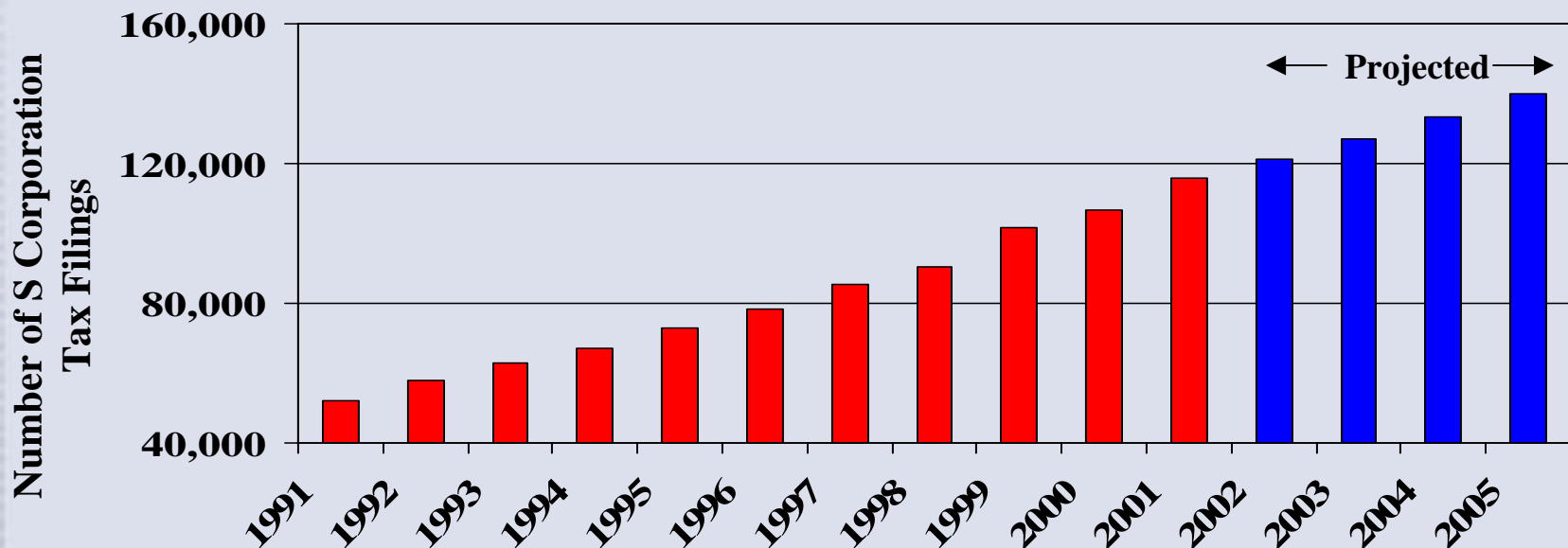
# Corporate Net Income Tax

*The percentage of Corporate Net Income tax filers with no net income has been steadily increasing -- from 63.4 percent of returns in 1998 to nearly 73 percent of returns in 2003. More than 95 percent of all Corporate Net Income tax filers paid \$10,000 or less in Corporate Net Income taxes during 2003.*

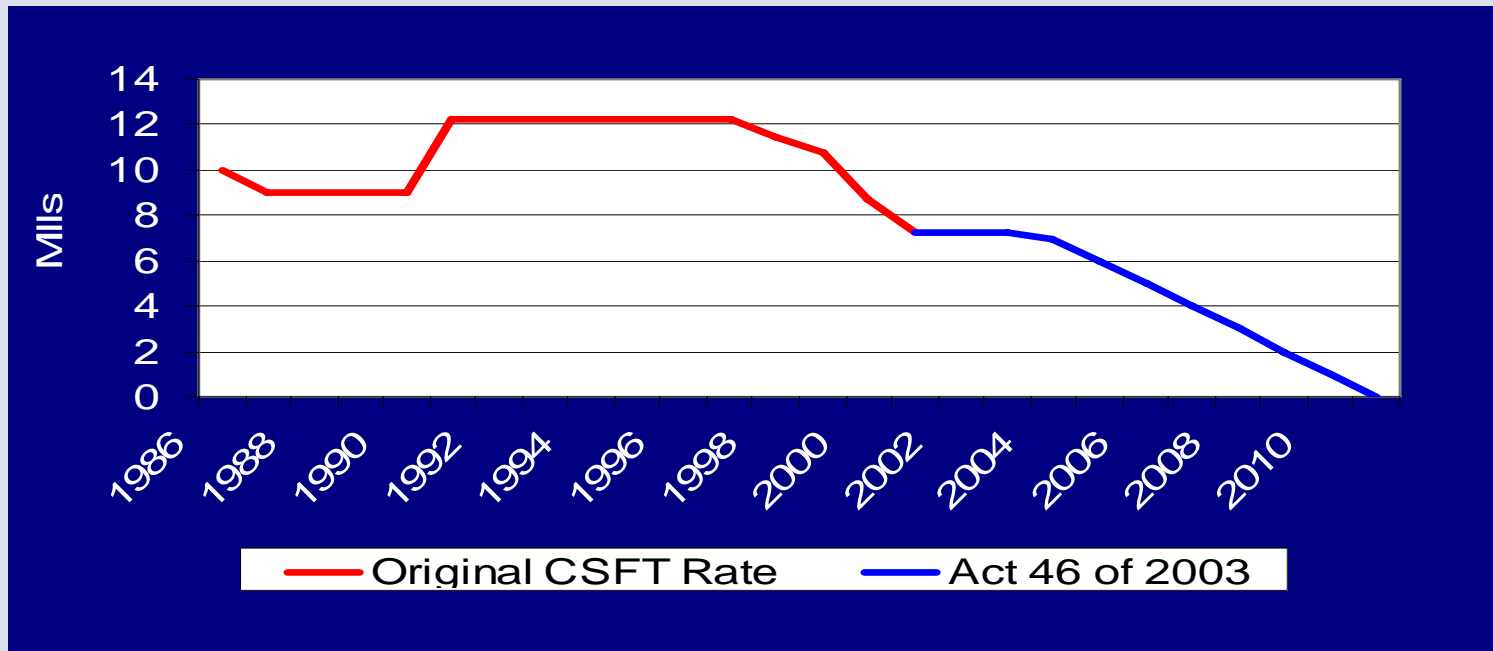


# Pennsylvania S Corporation Tax Filings

*Corporations that elect Pennsylvania "S corporation" status are exempt from the Corporate Net Income Tax. Pennsylvania S corporation shareholders instead include their share of Pennsylvania S corporation income in their Pennsylvania Personal Income Tax filings. This effectively allows corporations to pay their business income tax at the Personal Income Tax rate of 3.07 percent rather than the Corporate Net Income Tax rate of 9.99 percent. In 2005-06, the Department of Revenue estimates that S corporations will pay nearly \$750 million less in taxes to Pennsylvania because of this allowance. From 1991 to 2005, the number of S corporations is projected to grow by 168 percent, an average annual growth rate of 7.3 percent.*



# Capital Stock and Franchise Tax




- The Capital Stock and Franchise Tax (CSFT) phase out continues - the rate was reduced to 5.99 mills on January 1, 2005 and will decrease one mill in each additional tax year. At 4.99 mills in January 2006 the CSFT rate will be at its lowest level since 1890.
- \$2.76 billion in revenue has been foregone since 2000 as a result of CFST rate reductions.
- An additional \$744.7 million would have been collected in 2005-06 if the CSFT rate had remained at 10.99 mills.
- The cumulative impact of cuts in the CSFT rate since Governor Rendell took office in January 2003 is \$295 million.



# Business Tax Reform

*In March 2004, the Governor created the Business Tax Reform Commission to recommend changes to make Pennsylvania's business tax structure more competitive. The Commission made the following unanimous recommendations but pointed out that they should only be adopted as part of a comprehensive reform, and should NOT be adopted piecemeal.*

- ✓ Reduce the CNI Tax rate to 7.90 percent. **This historic reduction will lower the CNI Tax rate by more than 20 percent from the current 9.99 percent rate.**
- ✓ Eliminate the \$2 million annual cap on Net Operating Losses.
- ✓ Continue the scheduled phase-out of the Capital Stock and Franchise Tax.
- ✓ Change the weighting of the sales factor of the CNI Tax apportionment formula from 60 percent to 100 percent. **This will encourage employers to locate or expand production in Pennsylvania.**
- ✓ Shift to market-based sourcing in the CNI Tax apportionment formula for the sale of services. **This will encourage growth in service-related industries.**
- ✓ Reform Pennsylvania's tax appeals process and related administrative procedures.
- ✓ Implement a mandatory unitary combined reporting system. **Requires members of a unitary group of businesses to combine income and expenses for tax purposes.**



# Management and Productivity Initiatives

# Examples of Cost-Saving Initiatives

*Governor Rendell has transformed the way that Commonwealth government works by reducing the cost of government by more than \$660 million through reduced spending, cost avoidance, enhanced revenues, and improved management. These initiatives have enabled agencies to maintain service levels with operating funding levels that are 9 percent lower than 2002-03 levels even as some expenditure areas, such as fuel, utility and health care costs, exceeded inflation growth. With these savings, Governor Rendell has been able to increase investments in education, social welfare and economic development programs.*

## Enterprise Management & Efficiency

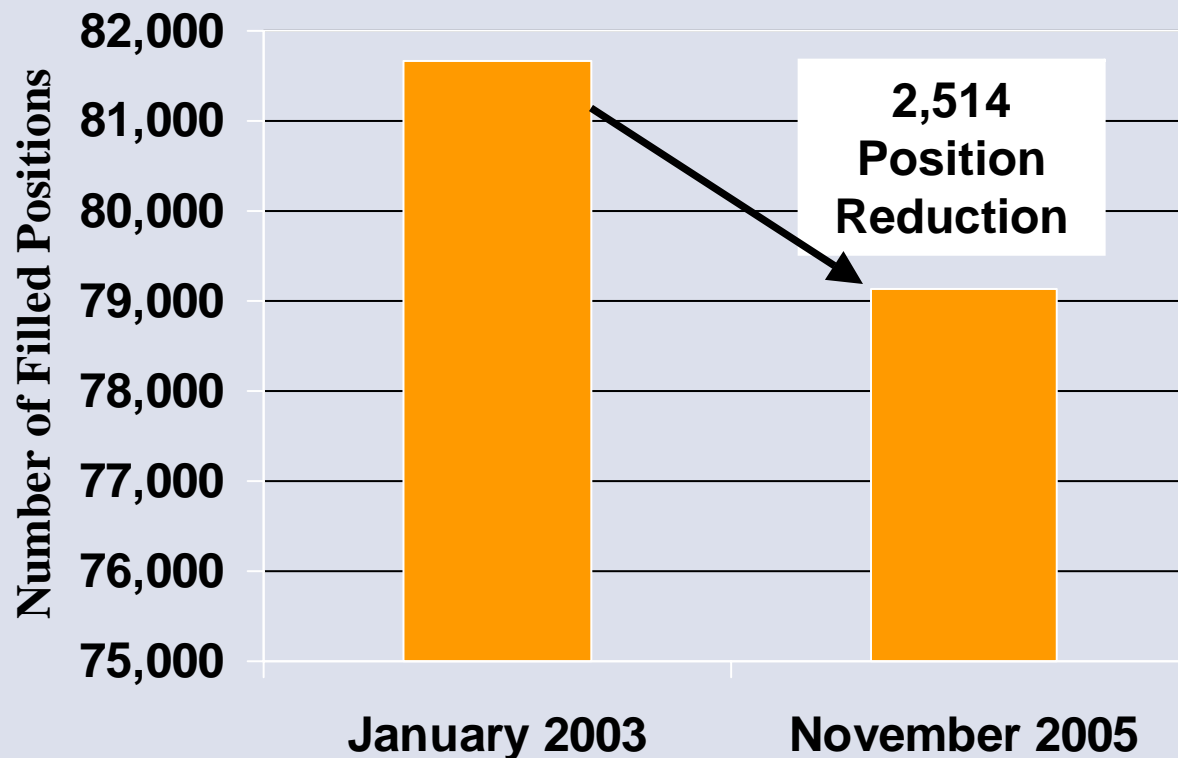
- **Strategic Sourcing . . . . . (\$140.7M)**
- **DPW Admin. Cost Reduction .. (\$27.9M)**
- **Publication Eliminations and Print/Mail Efficiencies . . . . . (\$6.3M)**
- **IT Contractor Replacement . . . . (\$6.2M)**
- **DPW IT Contract Renegotiations (\$5.2M)**
- **Close Revenue District Offices .. (\$3.6M)**
- **Telecommunications . . . . . (\$4.3M)**

## Agency Program Improvements

- **In-Source SSI Check Writing . . . . (\$30.5M)**
- **DPW Fraud and Abuse Reductions and Third Party Liability Collections .. (\$20.5M)**
- **DOT Call Center Renegotiation . . . (\$1.45M)**
- **Health Fulfillment Operations . . . . (\$0.5M)**
- **DPW Electronic Benefits Transfer Contract . . . . . (\$0.5M)**
- **Electronic Pay Statements . . . . . (\$0.5M)**

# Filled Employee Positions

*Since the beginning of the Rendell Administration, the number of filled state positions has decreased through attrition by 3.1 percent, from 81,657 to 79,143, without layoffs or service reductions.*





# Reductions in Employee Levels by Selected Program

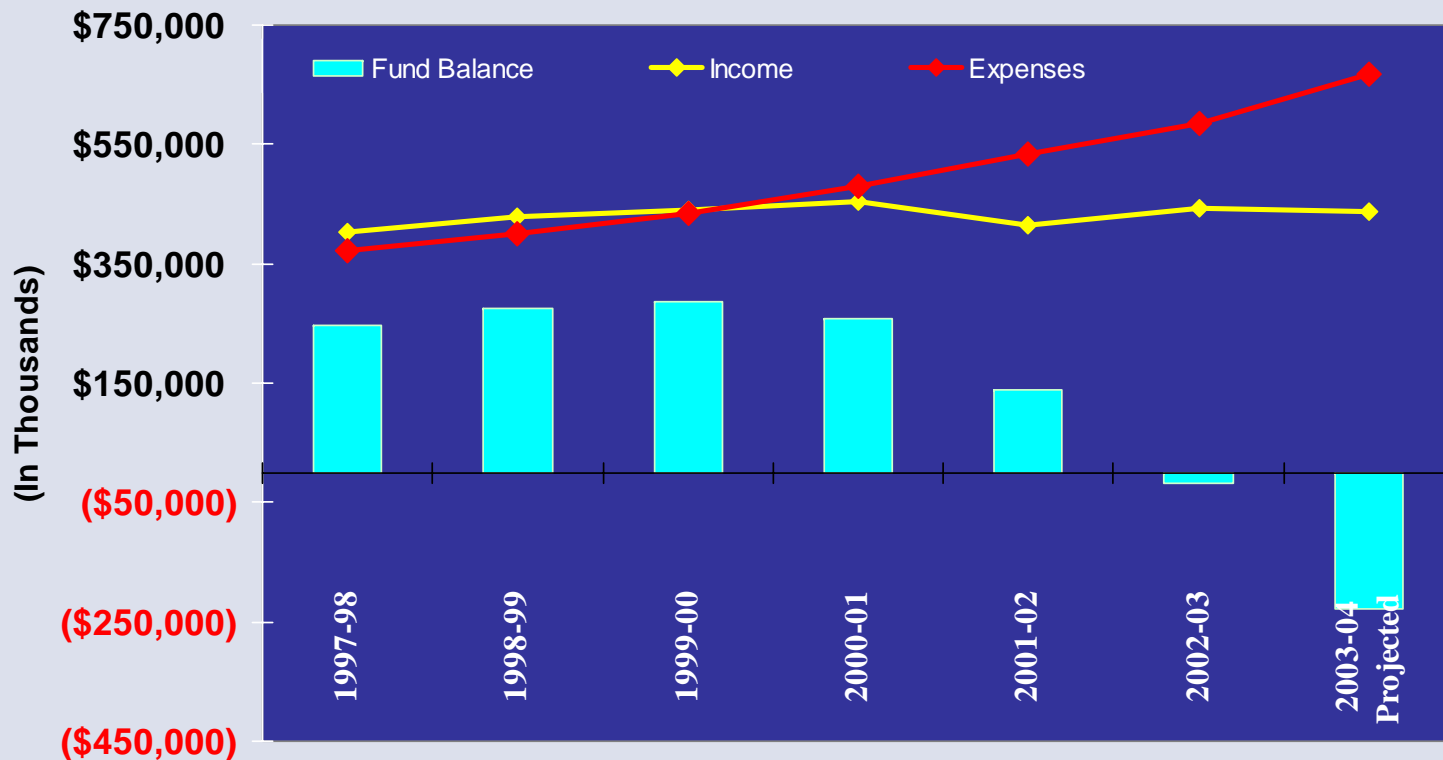
January 2003 to November 2005

	<u>Number of Reductions</u>
Public Welfare – County Assistance Offices	-532
Public Welfare – Office of Mental Health	-438
Public Welfare – Office of Mental Retardation	-317
Transportation – Bureau of Maintenance and Operations	-117
Environmental Protection – Administrative Operations	-97
Environmental Protection – Environmental Program Management	-83
Revenue – General Government Operations	-83
Office of the Budget	-82
Transportation – Bureau of Highway Safety and Traffic Engineering	-81
Transportation – Bureaus of Motor Vehicles and Driver Licensing	-50

# Pennsylvania Employees Benefit Trust Fund

## Active Employee Health Program Prior to Corrective Action

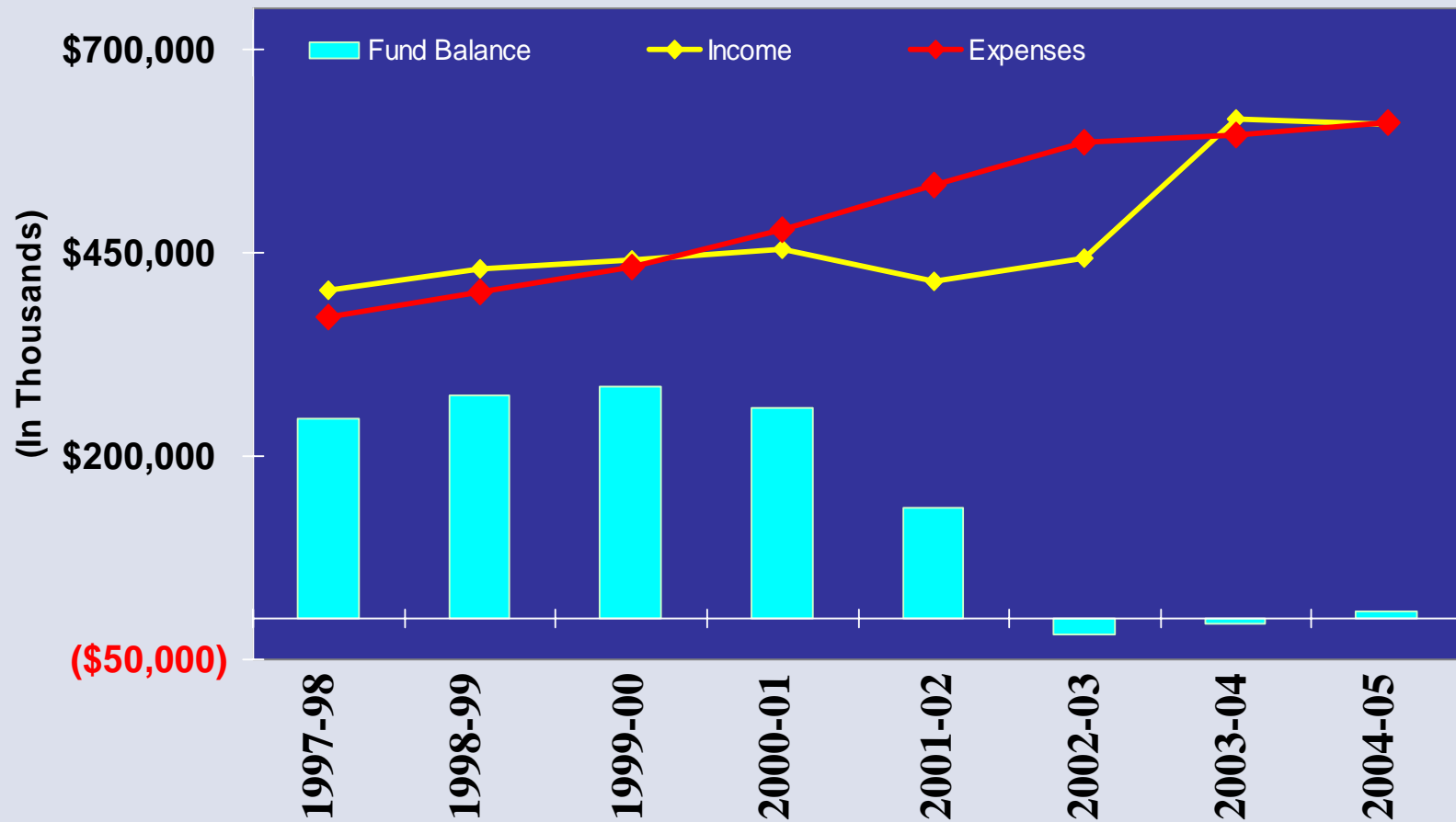
*As health care costs escalated for Commonwealth employees in the late 1990s, state contributions to the Pennsylvania Employees Benefit Trust Fund (PEBTF) were not increased to compensate. On the contrary, several "contribution holidays" actually reduced state contributions. The "savings" were used to cover increases in wage and salary costs. PEBTF reserves were depleted to make up the difference. By 2003-04, PEBTF reserves had been depleted, and the PEBTF was on the verge of insolvency.*




# Pennsylvania Employees Benefit Trust Fund

## Active Employee Health Program After Corrective Action

*The Pennsylvania Employees Benefit Trust Fund (PEBTF) has been stabilized through plan redesign, the Get Healthy Initiative and increased Commonwealth contributions.*

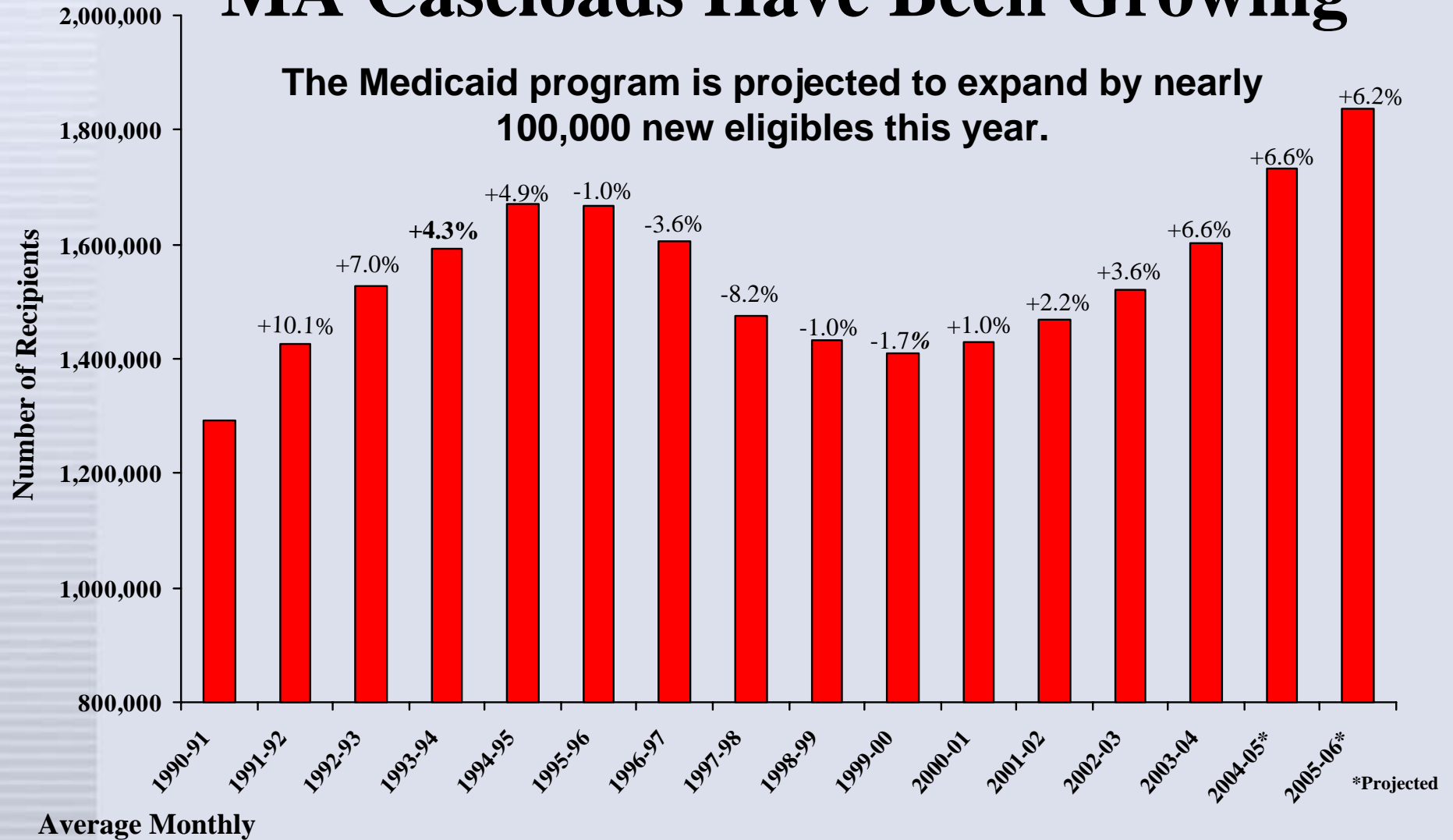




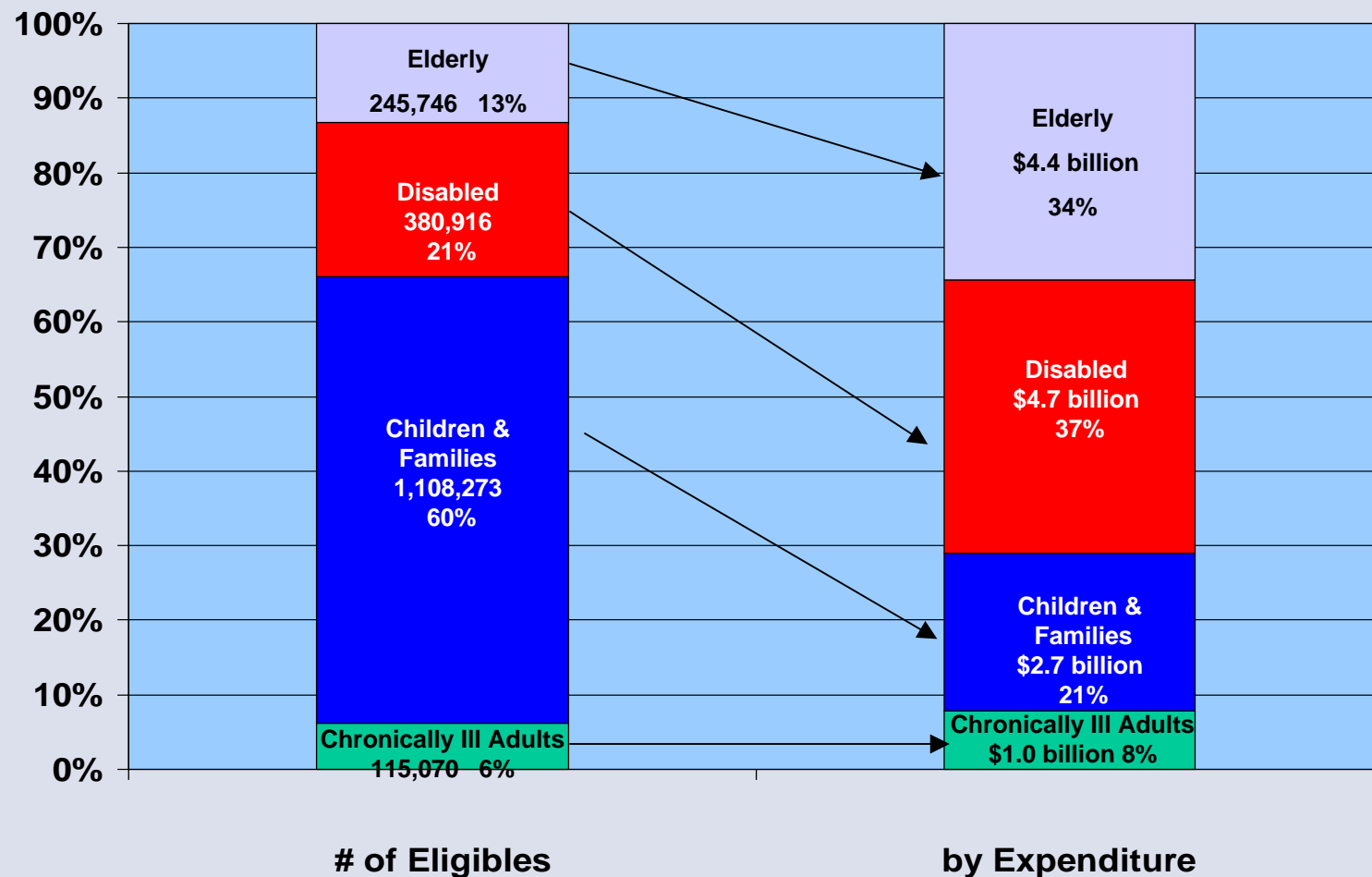
# Implementing the 2005-06 Budget

# MA Caseloads Have Been Growing

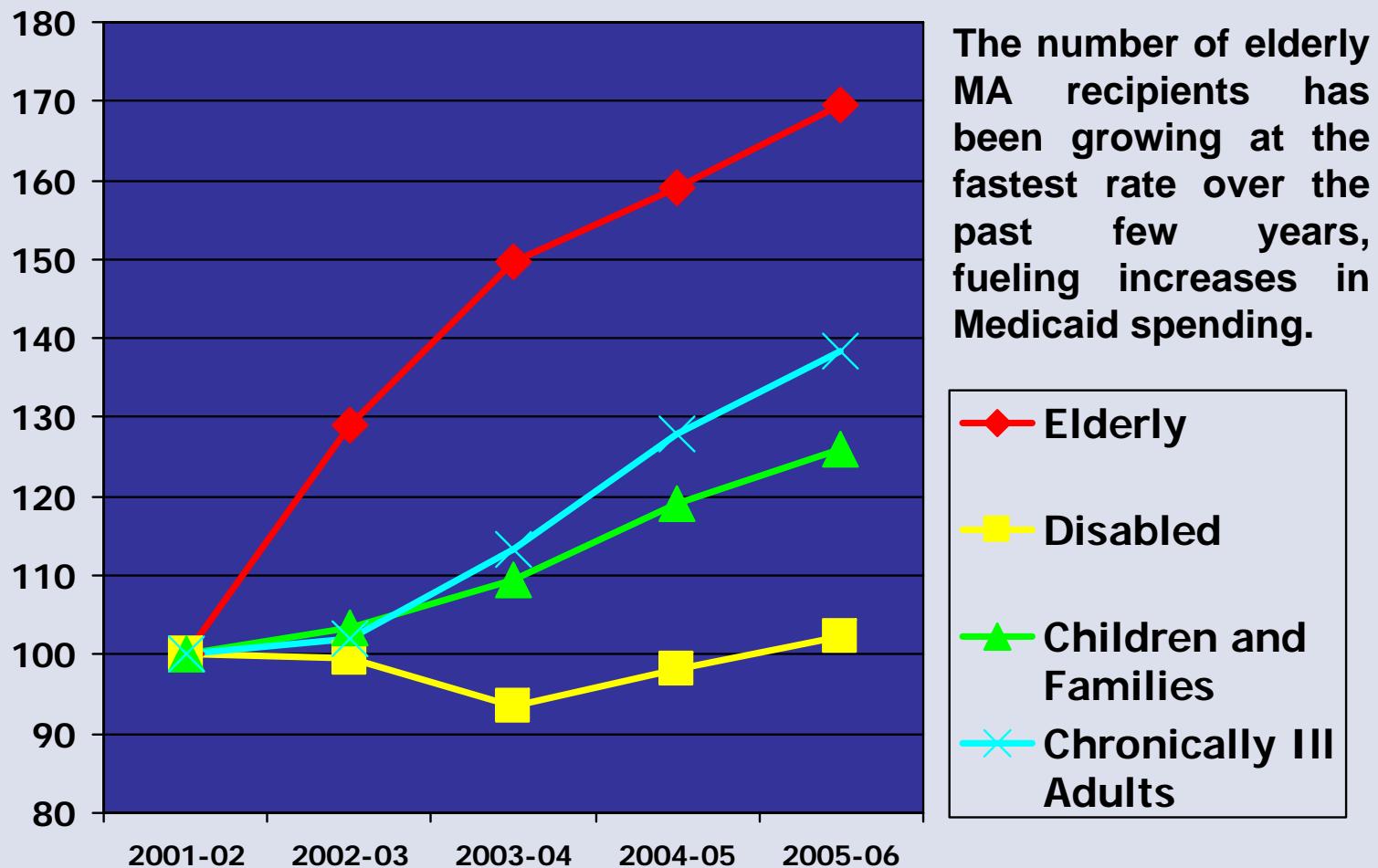
The Medicaid program is projected to expand by nearly 100,000 new eligibles this year.



# The Elderly and Disabled People Use the Greatest Share of Medicaid Resources



# The Elderly Are the Fastest Growing Group in the Medicaid Program



# Preserving and Modernizing the Safety Net

*In order to preserve essential social welfare services in the face of ever-growing caseloads and escalating health care costs, the 2005-06 Public Welfare budget required the department to implement 21 initiatives to generate \$331.5 million in cost containment. The Department is successfully implementing these initiatives.*

(Amounts in millions)

<b>Major Initiatives Year-to-Date Progress/Year End Proj.</b>	<b>Budgeted Savings</b>	<b>Year-to- Date</b>	<b>Projected Year- End Savings</b>
Reduced administrative costs and enhanced efficiencies	\$106.8	\$40.6	\$116.6
Increased third-party liability collections and decreased fraud and abuse	\$20.5	\$12.1	\$20.5
Preferred drug list and other pharmaceutical efficiencies	\$82.1	\$46.5	\$82.1
Fee-for-service benefit package redesign	\$24.2	\$5.9	\$24.2
Other initiatives (academic medical centers, loophole premium, unpaid medical expense deduction and MATP efficiencies)	\$33.5	\$12.9	\$28.7



# Medicare Part D Prescription Drug Program

## The Low-Income Subsidy Program

- All Medicare beneficiaries (including dual eligibles\*) are eligible for Medicare Part D.

Low-income beneficiaries receive enhanced benefits:

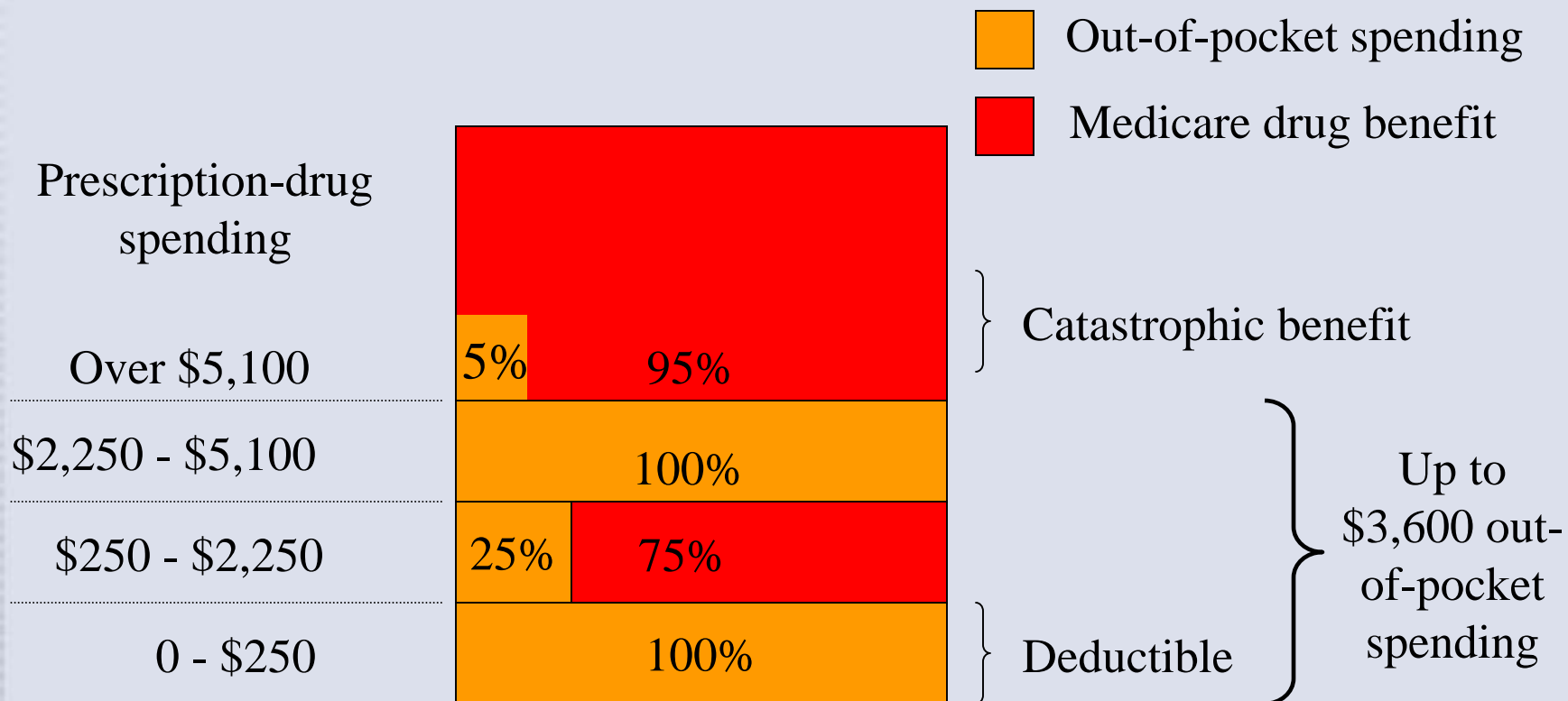
- Incomes less than 135 percent of poverty\*\*:
  - No premium
  - No coverage gap
  - Small co-pays
- Incomes from 135 percent to 150 percent of poverty\*\*:
  - Reduced premium
  - No coverage gap
  - Reduced cost-sharing

\* People eligible for both Medicare and Medicaid are called dual eligibles.

\*\* Subject to various asset-test rules.

# Medicare Part D Prescription Drug Program

## How the Standard Medicare Part D Program Works for Households with Incomes Greater Than 150% of Poverty



Medicare Part D plans may offer alternative options as long as they are actuarially equivalent.



# Medicare Part D Prescription Drug Program

## Integrating the Commonwealth's PACE and PACENET Benefits

*The 2005-06 budget assumed that 80,000 PACE recipients would be eligible for the Medicare Part D Low-Income Subsidy Program effective January 1, 2006, resulting in budgeted savings of \$94 million in the Lottery Fund.*

- ✓ On November 30, Governor Rendell and Secretary Leavitt of the U.S. Department of Health and Human Services announced that PACE and PACENET recipients who are eligible for the Medicare Part D Low-Income Subsidy Program should apply for federal low-income subsidy prescription drug benefits and continue to benefit from PACE/PACENET.
- ✓ The Department of Aging is working with the 80,000 PACE beneficiaries to ensure that they enroll in the Medicare Part D Low-Income Subsidy Program.
- ✓ The Department of Aging plans to identify and qualify four or five pre-selected Prescription Drug Plans, thereby making it easier to direct PACE and PACENET enrollees to the Medicare prescription plan that best suits their needs.
- ✓ The Rendell administration continues to work with the U.S. Department of Health and Human Services to determine how best to integrate the 210,000 remaining PACE/PACENET recipients into the standard Medicare Part D prescription drug program.



# Investing In Pennsylvania's Future

*The FY 2005-06 budget increases total State education funding by 2.5 percent.*

- \$131.2 million increase (3%) in **Basic Education** Funding – provides for the first time ever a foundation-based funding supplement to help school districts where per-student spending is inadequate to deliver a quality education.
- \$23.9 million increase (2.6%) in **Special Education** Funding.
- \$200 million for the second year of the **Accountability Block Grants** – more than 91,000 students are benefiting from pre-kindergarten, full-day kindergarten, reduced class size and tutoring.
- \$30 million to double the State funding for **Head Start** pre-kindergarten classrooms – to serve nearly 5,000 children.
- **Job Ready PA:** \$66 million for tutoring in the **most academically challenged school districts** – a \$28 million increase over 2004-05.
- **Job Ready PA:** \$22.8 million increase for **community colleges** – the largest increase in 15 years.
- **Job Ready PA:** \$5 million for dual enrollment programs that **let high school students earn college credit** while they complete their graduation requirements, and \$4.7 million to transform Pennsylvania's high schools through **Project 720**, the state's **high school improvement** initiative.



# Higher Education in the FY 2005-06 Budget

**10% increase for the Community Colleges . . . . . \$ 22.8 M**

**2.75% increase for the State System of Higher Education. . \$ 11.9 M**

**2.5% operating increases for the State-Related Universities**

**Penn State University . . . . . \$ 6.0 M**

**University of Pittsburgh . . . . . 3.7 M**

**Temple University . . . . . 3.9 M**

**Lincoln University . . . . . 0.3 M**

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**Total Increase – State-Related Universities . . . . . \$ 13.9 M**

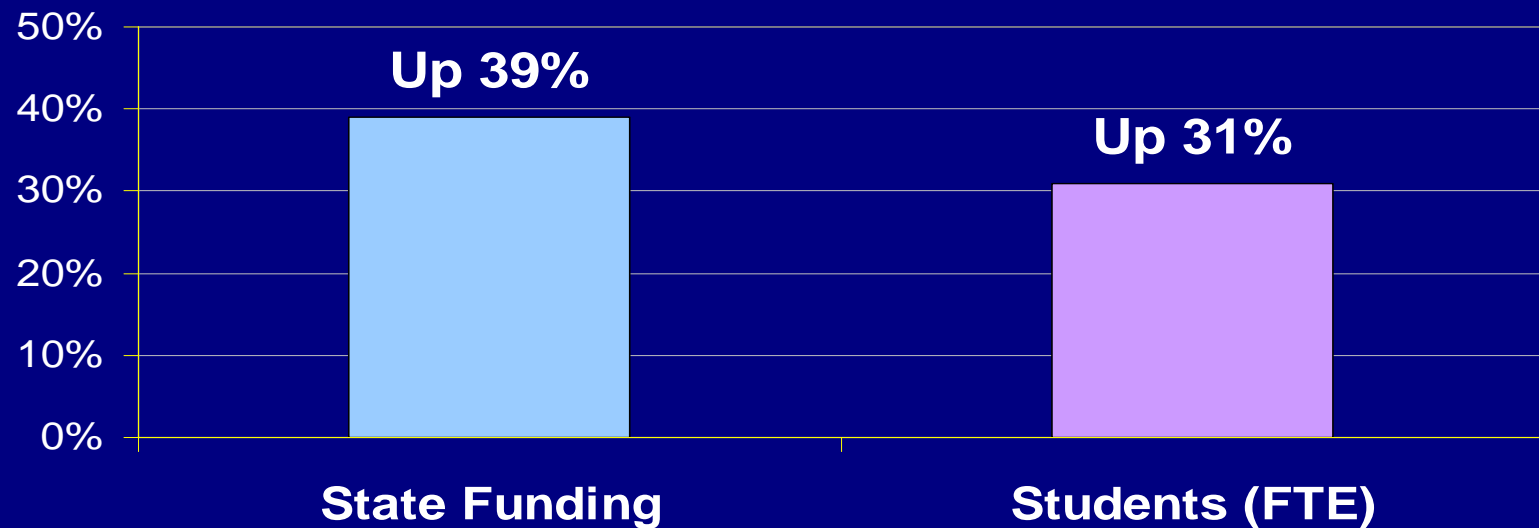
**2.5% increase for the Pennsylvania Higher Education**

**Assistance Agency’s Grants to Students program . . . \$ 8.9 M**

# Community Colleges

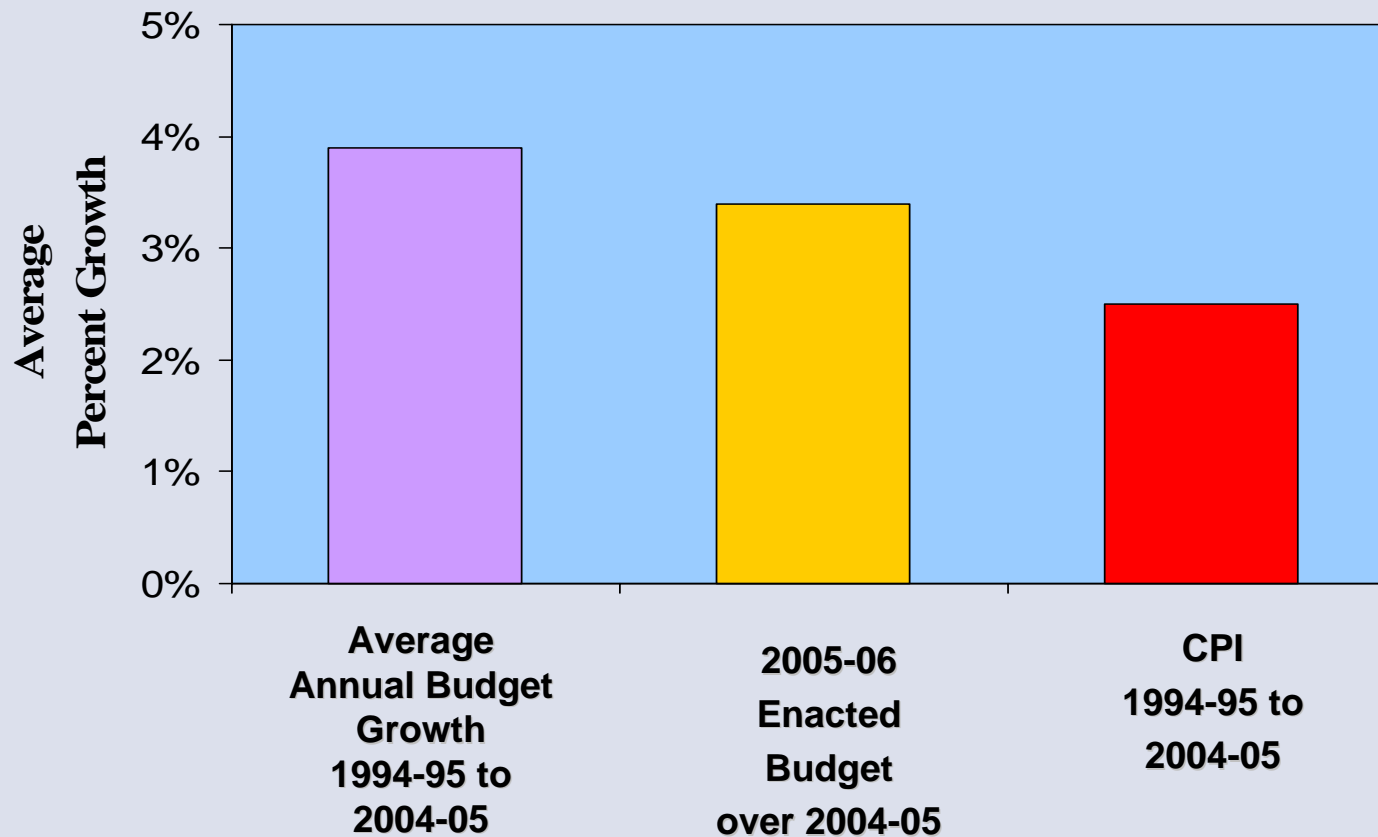
*Pennsylvania's 14 community colleges are a key part of PA's education and workforce development systems. The 2005-06 Commonwealth **budget provides a 10 percent, \$22.8 million, increase in state funding for community colleges and institutes** an improved funding formula that makes funding more predictable and also improves the coordination between community college course offerings and the state's workforce development needs.*

## State Funding and Community College Students 1999-00 to 2004-05



# Growth in 2005-06 General Fund Expenditures Compared to Recent Growth Trends

*Spending growth in the enacted 2005-06 budget is 3.4 percent, lower than average spending growth rate over the previous decade, but higher than the general rate of inflation.*



# Fastest Growth Areas in the Commonwealth Budget

*Many important programs that the Commonwealth supports have experienced double-digit rates of growth in service costs, largely because rate increases for providers and the number of people needing services both have increased faster than the rate of inflation.*

(Dollars in thousands)

<b>Program</b>	<b>FY 2002-03 Funding</b>	<b>FY 2005-06 Funding</b>	<b>Difference</b>	<b>Average Annual Rate of Growth 2002-03 to 2005-06</b>
Medical Assistance – Health Care	\$2,787,708	\$3,863,536	\$1,075,828	12%
Medical Assistance – Long-Term Care	\$250,568	\$627,962	\$377,394	36%
County Child Welfare, including TANF Transition	\$600,639	\$883,526	\$282,887	14%
School Employees Retirement	\$44,466	\$254,495	\$210,029	79%
Services to Persons with Disabilities	\$12,442	\$45,874	\$33,432	55%



# **Fastest Growth Areas in the Commonwealth Budget**

**Some Reasons for the Growth from FY 2002-03 to FY 2005-06**

## **Medical Assistance: Health Care**

- **21% increase in people served (1.5 million to 1.8 million)**
- **18% increase in clinic visits (2.4 million to 2.9 million)**

## **Medical Assistance: Long-Term Care**

- **16% increase in average MA cost for nursing home care (\$30,724 to \$35,755)**
- **Two thirds of Pennsylvania nursing home population (65,000) are on MA.**
- **5% increase in number of people receiving MA nursing home services**

## **County Child Welfare**

- **4% average annual growth in adoptions (1,931 to 2,200)**

## **Services to Persons with Disabilities**

- **42% average annual increase in participants (945 to more than 2,700)**

## **State Contributions to the Pennsylvania School Employees Pension Fund**

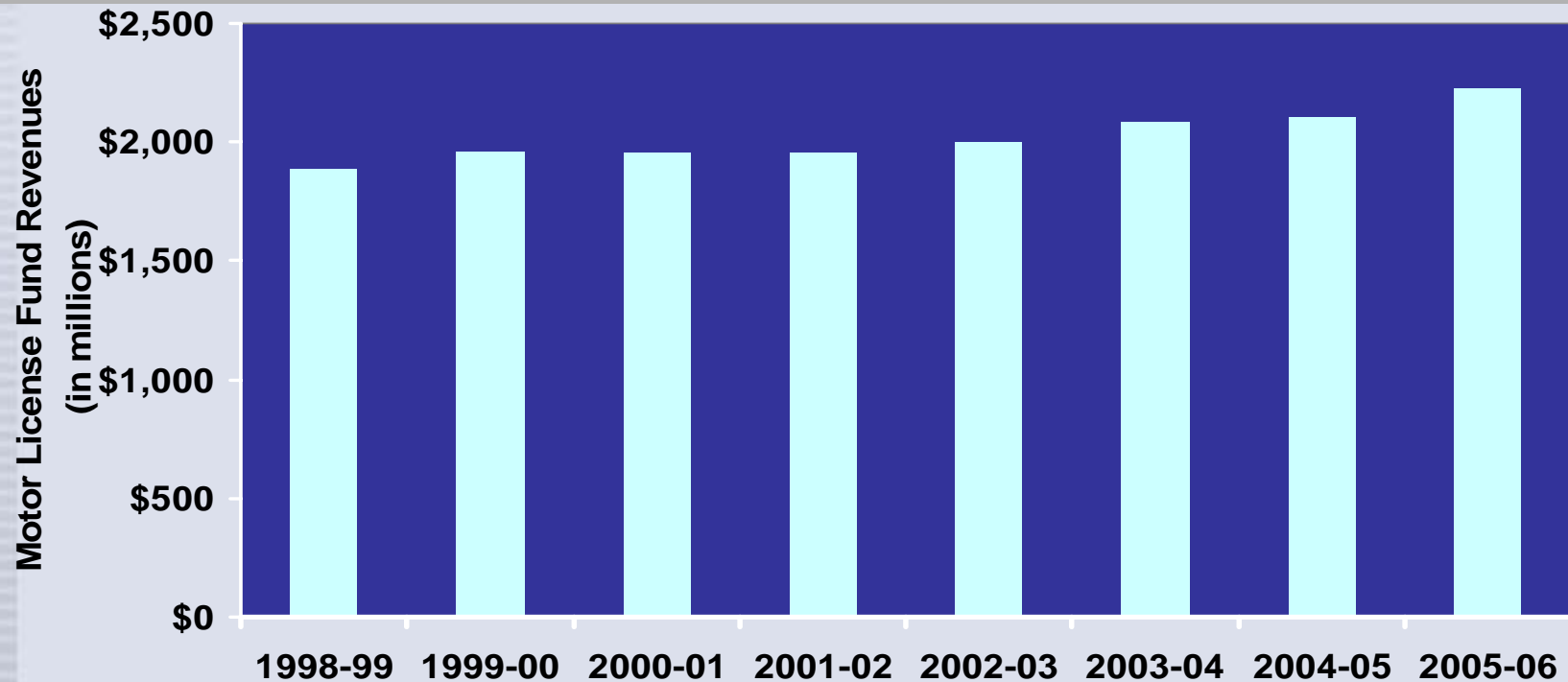
- **Stock market losses during the economic downturn**
- **Demographics – longer life spans and lower age of retirement**
- **Increase in average member compensation (upon which pension is based)**



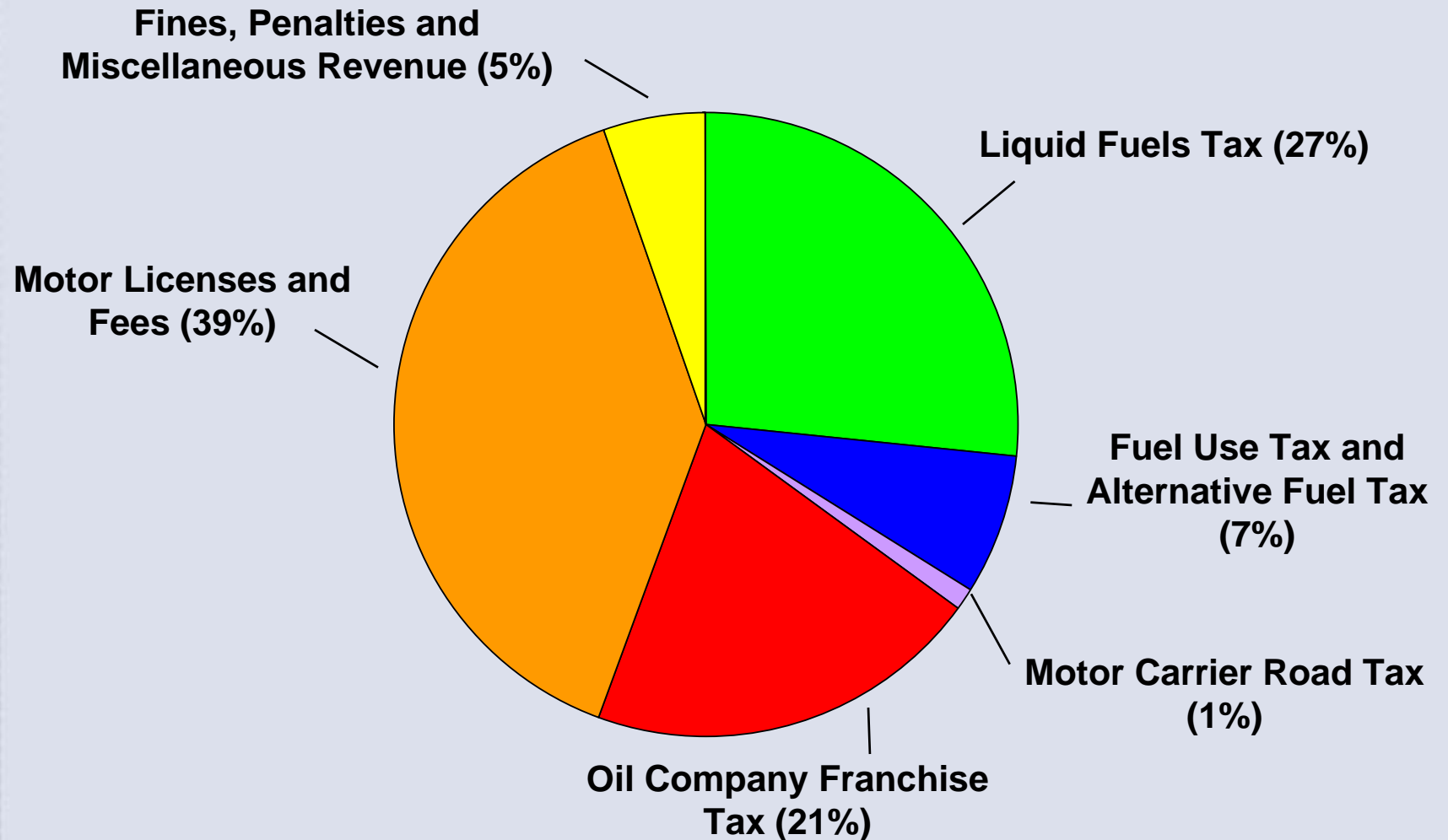
# Transportation

# Motor License Fund Revenues

*Motor License Fund revenues come mainly from liquid fuels taxes. Because higher prices tend to depress consumption, Fund revenues usually remain relatively level. The Oil Company Franchise Tax, which is tied to the price of fuel, has contributed to recent increases in Motor License Fund revenues. So far this growth has not been offset by decreases in consumption. However, because the tax is expected to reach its statutory cap this January, Fund revenues have likely reached a plateau.*

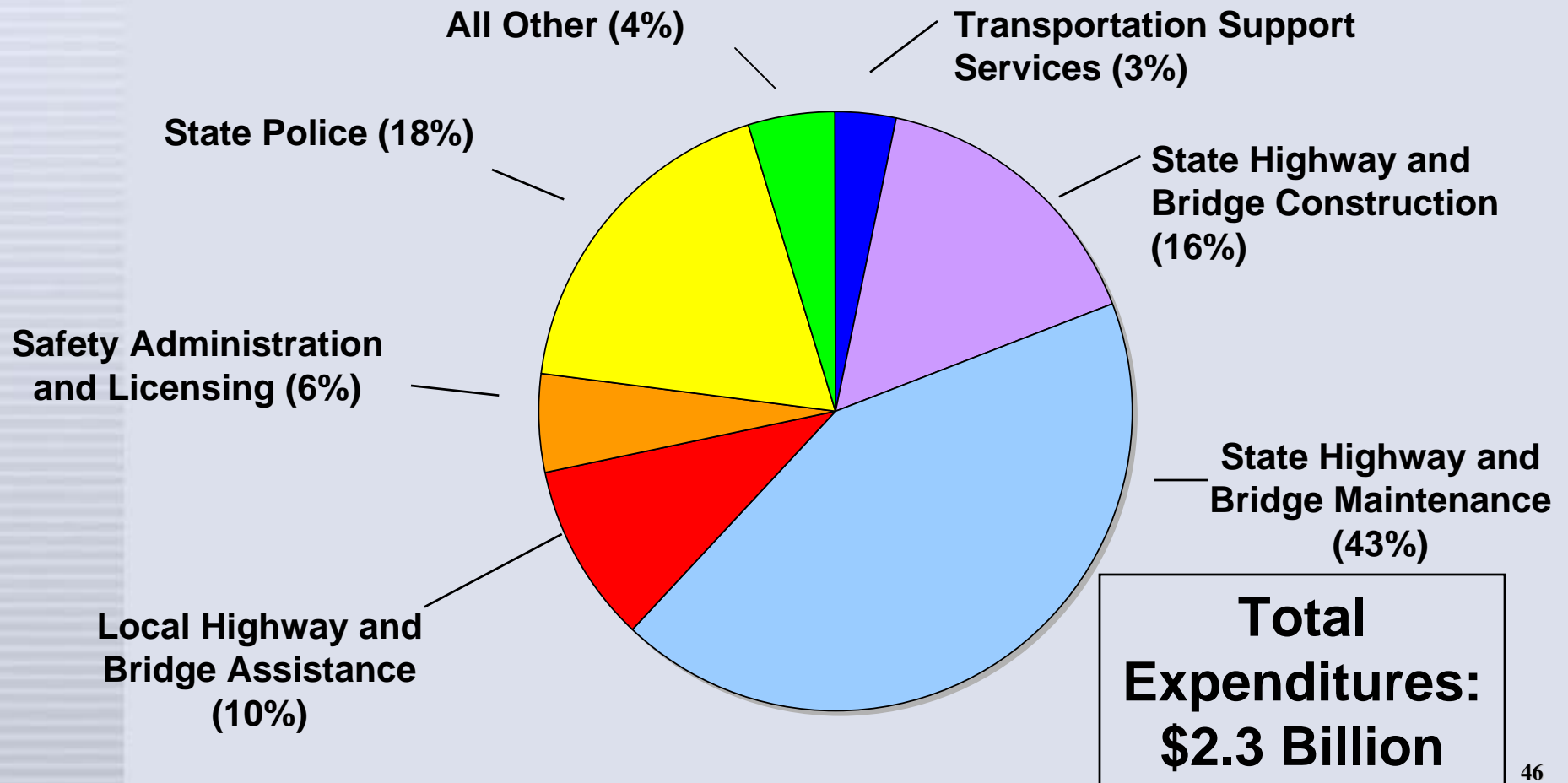


# 2005-06 Motor License Fund Revenue Sources



# 2005-06 Motor License Fund Expenditures

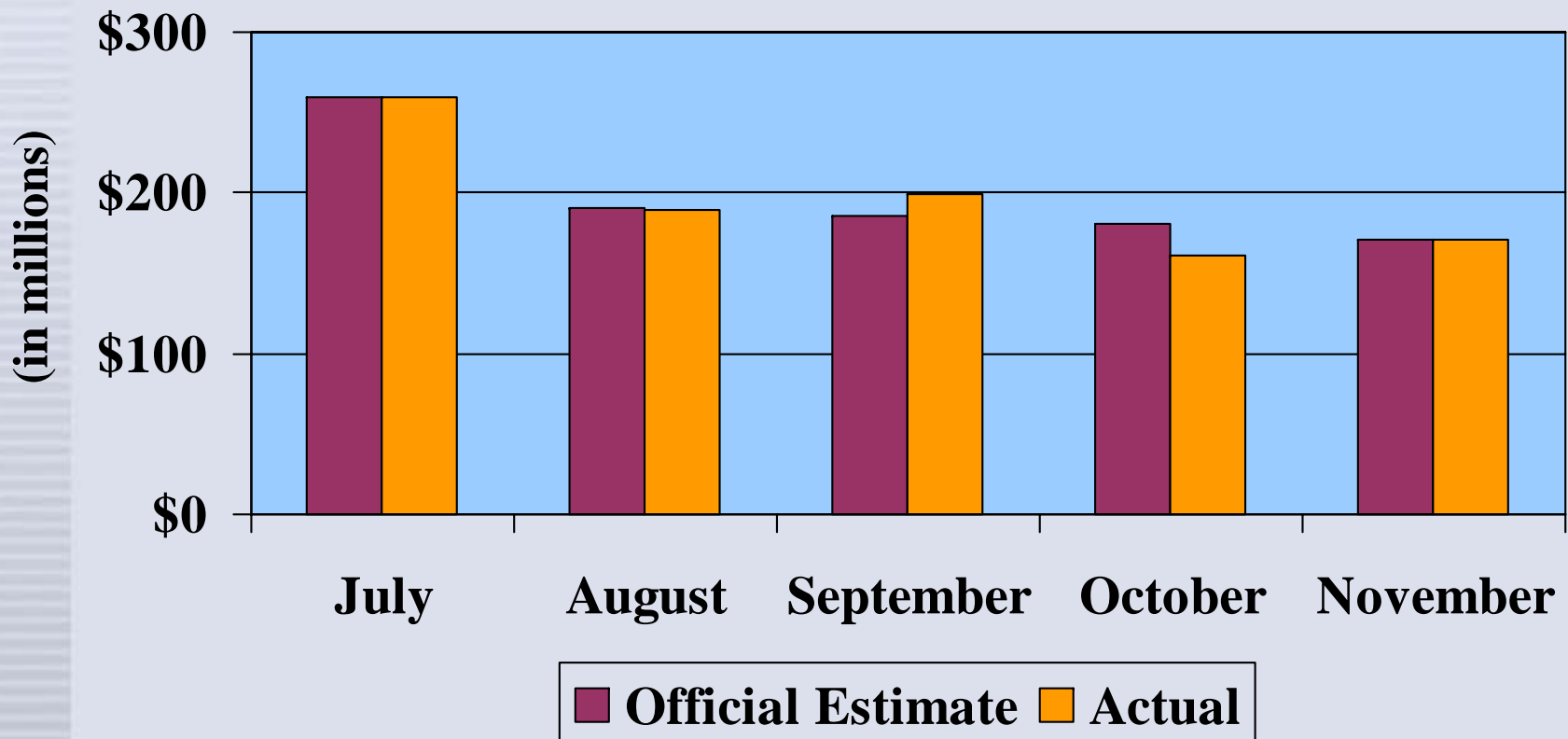
*About 70 percent of all non-restricted Motor License Fund dollars are used to build or maintain roads and bridges within the Commonwealth. The remainder is used for highway law enforcement, licensing, and safety and support activities.*



# Motor License Fund Revenues

2005-06 Forecast vs. Actual Collections

*Year-to-date Motor License Fund revenues are \$9.6 million, less than one percent below estimate through November.*





# Temporarily Averting a Transit Catastrophe

*In February 2005, Governor Rendell announced a plan to make available more than \$400 million in non-recurring funding for Pennsylvania's transit agencies over the next two years. These funds will come from federal transportation monies provided to Pennsylvania, a major portion of which can be used either for roads or for public transit. Without the use of this federal "flex" funding, 16 transit agencies would have faced a total \$343 million funding gap that would have shut down their major transit operations.*

- The total service-area population of these systems is 7.9 million, or 64.7 percent of Pennsylvania's population.
- Not flexing highway funds would have affected 1.6 million disabled and 1.2 million elderly riders.
- Flex funding is a temporary measure to be followed by development of a permanent, long-term solution.
- The Transportation Funding and Reform Commission, with four legislative appointees, represents a cooperative effort to solve the transit crisis.

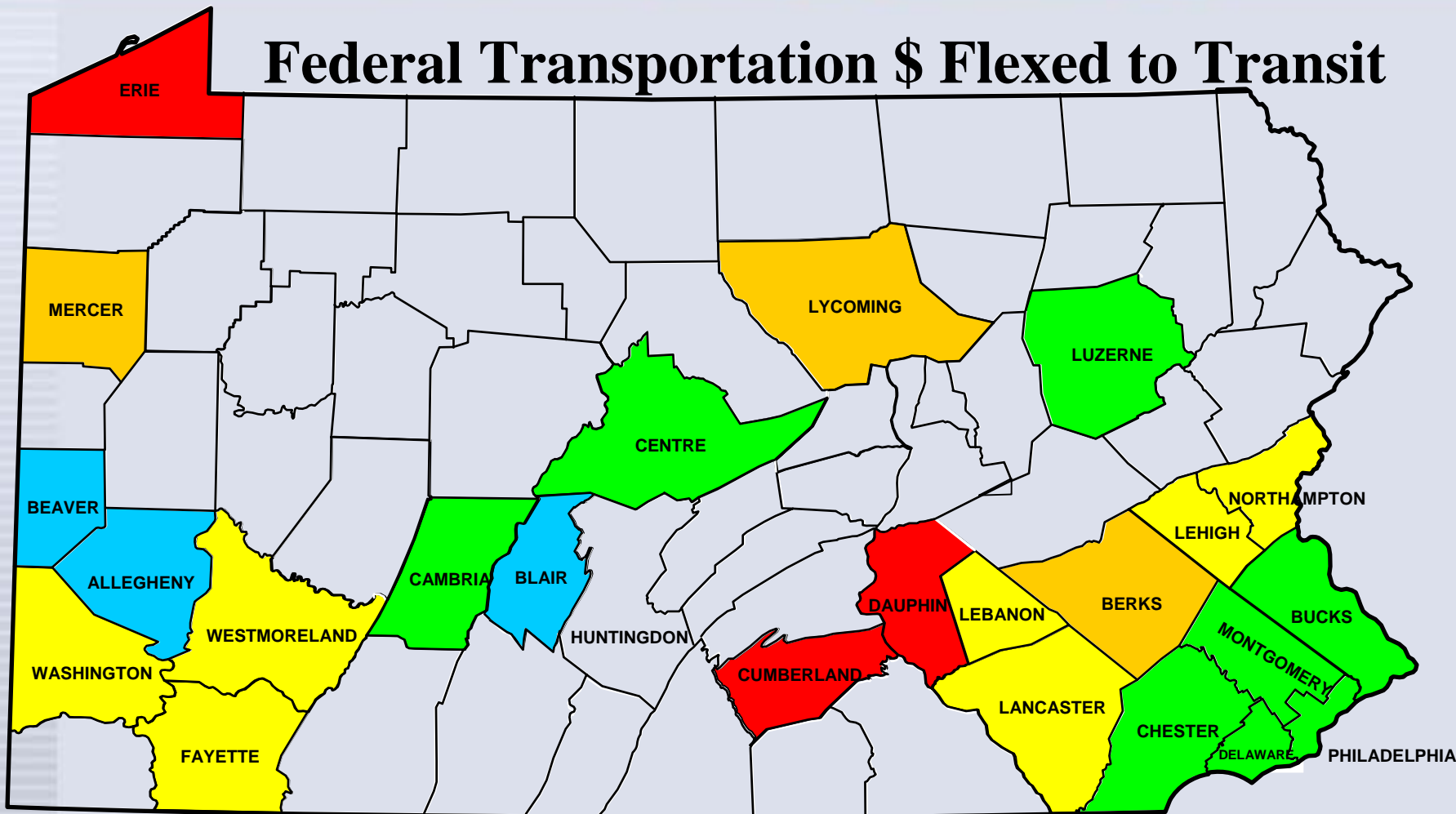


# Transportation Funding and Reform Commission

*Having achieved a temporary resolution of the transit funding crisis, the Governor formed a commission to recommend appropriate funding for transit, roads and bridges.*

- The Commission is composed of five members appointed by the Governor, including the Secretary of Transportation, and four members appointed by the General Assembly. Its focus thus far has been on hearing transit agency perspectives and on the road and bridge program.
- The Commission has met three times in Harrisburg and once in Erie. Seven more meetings have been scheduled, including in Pittsburgh and Philadelphia. A final report is scheduled for November 2006.
- The Commission plans to:
  - Conduct transit agency operational audits and identify opportunities for cost efficiencies, revenue enhancement and service improvements.
  - Evaluate transit agency structure and competitive contracting.
  - Assess relationship between growth patterns and transportation systems with the goal of reducing congestion and improving transit access.
  - Recommend appropriate long-term funding sources and levels.

# Federal Transportation \$ Flexed to Transit



Operating-Related Flex Funding as a Percent of Total System Operating Cost

Capital Flex Spending Only



# Highway Funds Continue Strong Growth Trend

*Even after “flexing” some additional federal transportation funds to keep the state’s 16 transit agencies operating, Pennsylvania highway spending is still growing substantially, with an anticipated \$144 million increase in state funds in 2006-07. Pennsylvania highway spending this year is 18 percent, or \$710 million, higher than when Governor Rendell took office.*

(in millions of dollars)

(in millions of dollars)

	(in millions of dollars)				(in millions of dollars)		
	State Funding	Federal Funding	Total Funding	Dollar Change from Previous Year	Percent Change from Previous Year	Standard Federal Funds Flexed for Transit	“Crisis” Federal Funds Flexed for Transit
2000-01	\$2,642	\$1,120	\$3,762	-	-	\$46	-
2001-02	\$2,680	\$1,291	\$3,971	\$209	5.6%	\$36	-
2002-03	\$2,688	\$1,282	\$3,969	(\$2)	0.0%	\$31	-
2003-04	\$2,664	\$1,219	\$3,883	(\$86)	-2.2%	\$59	-
2004-05	\$2,853	\$1,443	\$4,296	\$413	10.6%	\$48	\$74
2005-06	\$3,229	\$1,451	\$4,679	\$384	8.9%	\$25	\$202
2006-07	\$3,373	\$1,455	\$4,828	\$149	3.2%	\$25	\$138

\* Notes: Standard Flex amounts are stated on the basis of federal fiscal years; 2005-06 and 2006-07 amounts are estimates.



# General Fund Outlook at Mid-Year

# Anticipated 2005-06 Supplemental Appropriations

(Dollar Amounts in Thousands)  
2005-06 Available

## Treasury

Increased Death Benefits for National Guard and  
 Public Safety Workers . . . . . \$ 1,632  
*Act 59 of 2005 signed by Governor Rendell on October 6, 2005*

## Community and Economic Development

PHFA Homeowners Emergency Mortgage Assistance . . \$ 3,000

Public Welfare . . . . . \$ 210,000

*Cash Grants ~ \$20 million increase due to an increase in the number  
 of children and higher costs.*

*Capitation ~ \$70 million increase due to greater utilization and higher costs.*

*Long-Term Care ~ \$120 million increase due to Department of Aging  
 waiver costs and increased number of nursing home bed days.*

Total Anticipated Supplemental Appropriations. . . . . \$ 214,632

Plus: State Funding for Low-Income Energy Assistance . . . . \$ 20,000

Total Additional Commonwealth Spending in 2005-06 . . . \$ 234,632

# 2005-06 General Fund Financial Statement

Revised

	\$ Millions		
	<u>2004-05</u>	<u>2005-06</u>	<u>2005-06</u>
	Actual	Enacted	Revised
Beginning Balance . . . . .	\$ 77	\$ 365	\$ 365
Receipts . . . . .	23,309	23,915	23,915
Gross Receipts Tax Reduction (LIHEAP) . . . . .	. . . . .	. . . . .	- 20
Adjustment to Official Estimate . . . . .	. . . . .	. . . . .	145
Prior Year Lapses . . . . .	97	. . . . .	85
Funds Available . . . . .	<u>\$ 23,483</u>	<u>\$ 24,280</u>	<u>\$ 24,490</u>
Expenditures . . . . .	\$ - 23,105	\$ - 24,278	\$ - 24,278
Supplemental Appropriations . . . . .	. . . . .	. . . . .	- 215
Current Year Lapses . . . . .	51	. . . . .	10
Preliminary Balance . . . . .	<u>\$ 429</u>	<u>2</u>	<u>\$ 7</u>
Transfer To Rainy Day Fund . . . . .	<u>-64</u>	<u>- 1</u>	<u>- 1</u>
Ending Balance . . . . .	<u><u>\$ 365</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ 6</u></u>



# 2005-06 General Fund

## Projected Status

(in millions)

November 30, 2005 Balance . . . . .	\$2
Revenue Surplus . . . . .	145
Gross Receipts Tax Reduction (LIHEAP). . . . .	- 20
Additional Lapses . . . . .	95
Supplemental Appropriations . . . . .	<u>- 215</u>
Preliminary Balance . . . . .	\$7
Transfer to Budget Stabilization Reserve Fund . . . . .	<u>- 1</u>
Projected June 30, 2006 Balance . . . . .	\$6



Governor's Mid-Year Budget Briefing  
December 14, 2005

*Edward G. Rendell*  
*Governor*