

MONEY matters

Senate Democratic Appropriations Committee

Jay Costa, Chairman

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a message from

SENATOR JAY COSTA

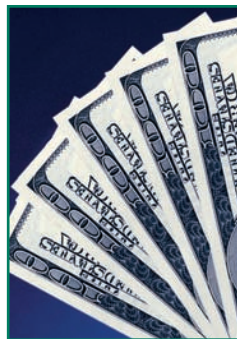


Welcome to Money Matters, a publication of the Senate Democratic Appropriations Committee. In each issue, we will bring you news about Pennsylvania finances - updates on the budget, major fiscal issues before the legislature, or economic trends impacting our state. Looking ahead to the coming year, we already know that 2009 will be challenging for those of us who must develop the state budget. As the nation faces its worst economic crisis since the Great Depression, we will have to balance the need to continue providing the critical services on which so many of our citizens rely, while still trying not to overburden taxpayers who are already feeling the pain of tough times. This month, we take a look at where we stand in our efforts to balance the current state budget, and look briefly at what Gov. Rendell proposes for an even more difficult 2009-10 fiscal year.

Revenues Short of Expectation

As of the end of January, the state had \$1.1 billion less in revenues than the officially budgeted estimate. All major categories of taxes are below expectations, including corporate taxes by \$152 million, sales tax by \$238 million, and personal income tax by \$276 million.

With the biggest tax collection months of the year still ahead in March, April and June, the potential for an even larger revenue gap is great. Senate Democratic Appropriations Committee analysts now predict that the budget gap will grow to more than \$2 billion by the end of the fiscal year.



While revenue was off slightly in the first few months of the fiscal year, the stock market collapse, business downturn, and rising unemployment that severely worsened in September significantly increased the state's financial trouble. For example, of the \$1.1 billion current shortfall, about \$279

million is due not to lower tax collections, but to an actual loss in value of assets that commonwealth has invested. Additional steps, including more budget cuts, are under consideration. These include tapping some of the money in the Rainy Day Fund and diverting to the General Fund \$174 million from leasing rights for oil and natural gas drilling on public land.

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Some Costs Must Rise for Next Year

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The outlook beyond the current fiscal year is even gloomier. Most economists forecast a lingering or even worsening recession in the near future. Because certain cost increases in major budget areas are unavoidable, however, the governor and legislature will have a potential budget problem of about \$5 billion to solve for the 2009-10 fiscal year that begins on July 1.



First, substantial natural growth in revenue is unlikely. Thus, the revenue shortfall Pennsylvania is experiencing would recur in 2009-10, even if the General Fund budget did not grow beyond this year's original amount of \$28.3 billion. That problem could reach nearly \$1 billion.

In addition, a scheduled reduction in the Capital Stock and Franchise Tax will, if it takes effect, cost the state \$125 million in revenue.

Due to an expected increase of 2,400 in the inmate population and several other cost factors, the Department of Corrections will need another \$163 million. The

Department of Public Welfare's obligations will rise by an estimated \$892 million, much of it due to declining federal support for some social service programs. The major DPW cost drivers are: \$165 million for an increase in medical assistance caseload; \$140 million for managed care payments because of a change in the timing of the state's payment cycle; replacement of \$100 million of federal

Intergovernmental transfer (IGT) money as the feds reduce their matching funds for some social services; replacement of \$40 million of lost interest earnings from the Tobacco Settlement Fund that currently supports long-term care; and replacement of another \$145 million of federal support for managed care.

Although it is not in statute, the state has committed to a basic education subsidy increase as part of a multi-year phase-in aimed at improving the adequacy of the state's financial support to school districts.

Federal Help May Ease the Pain

Although the federal government is cutting back support for some long-standing programs, the economic stimulus package under consideration in Washington is expected to provide short-term relief over the next two years to states whose finances are in distress because of the recession.

The final sum could be in the vicinity of \$800 billion, as president Obama has advocated. Because several versions of the aid plan are still under discussion, we still don't know the exact share that Pennsylvania will receive. Whatever the final price tag, we can likely expect significant help to meet our budget obligations from several pots of money. These would include:

- Medical assistance;
- Education, both in payments to the state for a variety of designated purposes as well as direct assistance for local school districts;
- Transportation and public infrastructure;
- Health care, for medical information technology and preventive care.
- In addition, citizens will receive direct help in the form of tax cuts and increased unemployment benefits.

Finally, though it will probably not provide immediate help to the state balance sheet, the stimulus package may include money for energy and science and technology that will have long term benefits in economic development and job creation.

As the federal relief bill is finalized and the precise amount of Pennsylvania's funding becomes available, we will share those details.

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