



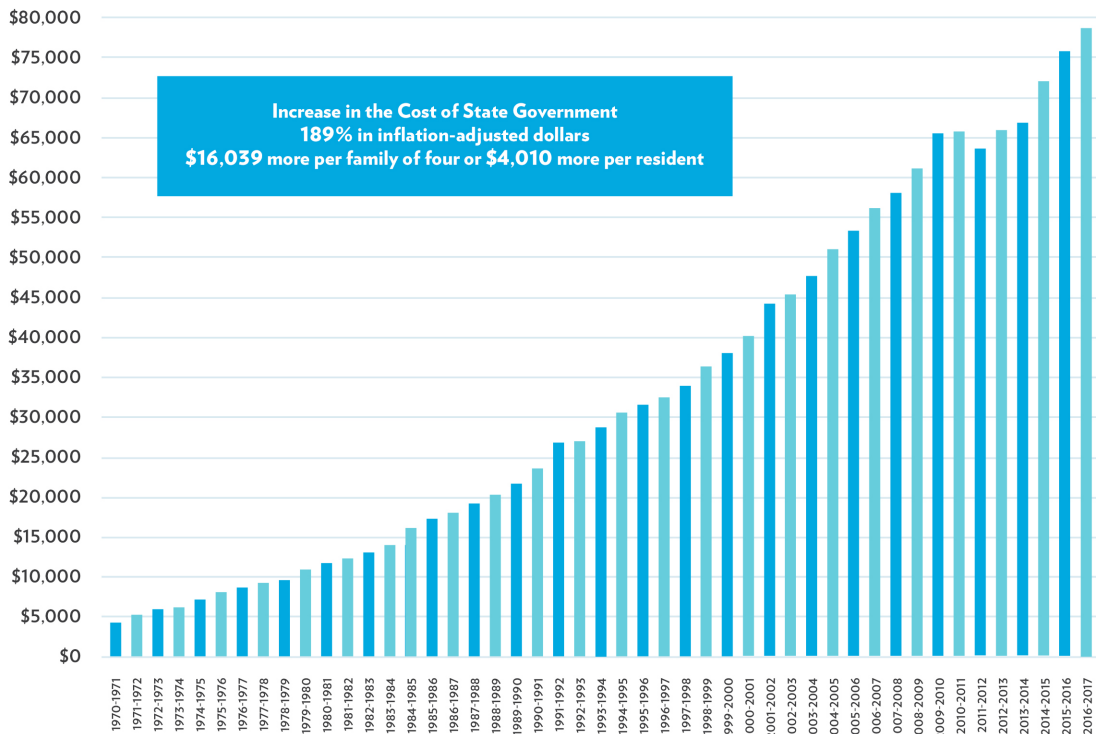
TRACKING STATE BUDGET TRENDS

The 2016-17 General Fund budget added to Pennsylvania's fiscal challenges. Lawmakers approved the \$31.6 billion budget without implementing meaningful reforms or authorizing enough revenue to balance the budget. Despite lacking solid revenue sources, the legislature increased spending by \$1.6 billion—a sum vastly exceeding the combined growth rate of inflation and population.

PENNSYLVANIA'S DECADES-LONG SPENDING SPREE

- This fiscal year, the commonwealth's total operating budget is projected to exceed \$78.5 billion—an inflation-adjusted increase of **189 percent** or **\$4,010 per person** since 1970.

PENNSYLVANIA STATE TOTAL OPERATING BUDGET, 1970-2017 (in millions of dollars)



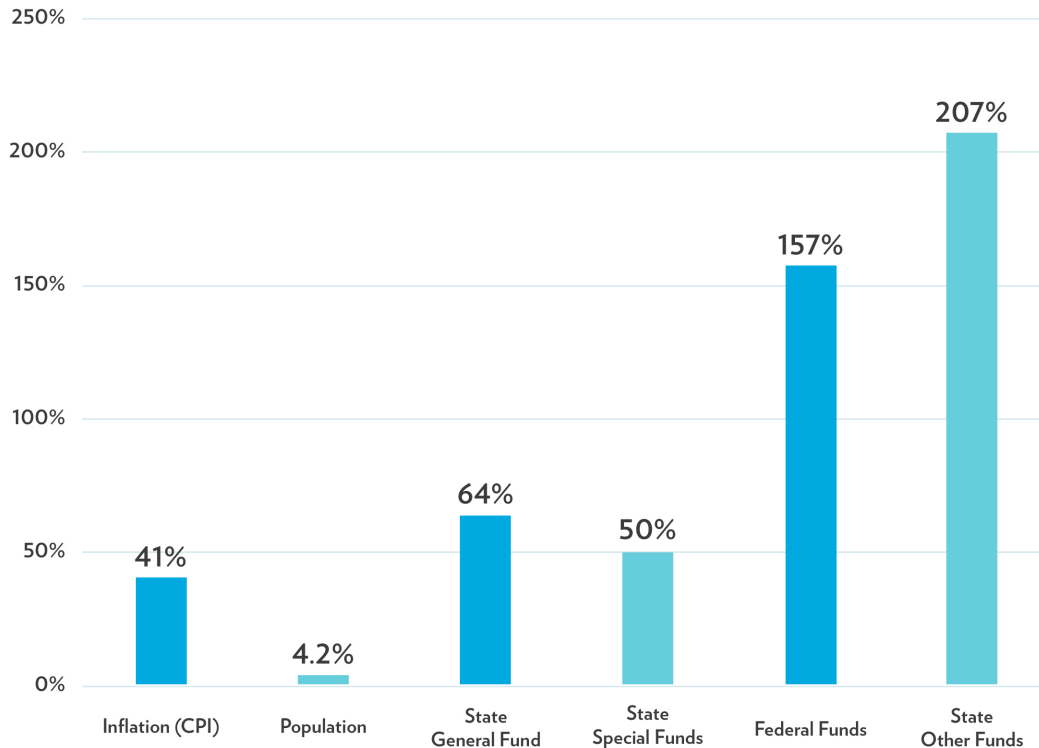
Source: Governor's Executive Budget (<http://www.budget.state.pa.us>)

- Pennsylvania’s operating budget includes federal funds. If federal sources of spending are excluded, total state spending increased by 127 percent—or \$2,216 per person—over the last 47 years.
- If lawmakers limited spending increases to the Taxpayer Protection Act cap of inflation + population growth, taxpayers would be enjoying a cumulative savings of more than \$22.2 billion.
 - Stated differently, simply slowing the growth of government spending would have produced a surplus for Pennsylvania in the current fiscal year and **saved taxpayers almost \$1,738 per person** since 2000.

PENNSYLVANIA STATE BUDGET BASICS

- The General Fund commands the attention of lawmakers, voters, and the media during budget season. Yet, it represents approximately 40 percent of the state’s total operating budget. Here is the breakdown for the current fiscal year (2016-17):
 - Total Operating Budget (estimated) = \$78.5 billion
 - General Fund Budget (enacted) = \$31.6 billion (includes funding for the Commonwealth Financing Authority)
 - Federal Funds (estimated) = \$27.8 billion
 - State Special Funds (estimated) = \$4.7 billion
 - Special Funds include the Motor License Fund and the Lottery Fund
 - State Other Funds (estimated) = \$14.4 billion

FEDERAL AND STATE FUND INCREASES SINCE 2000

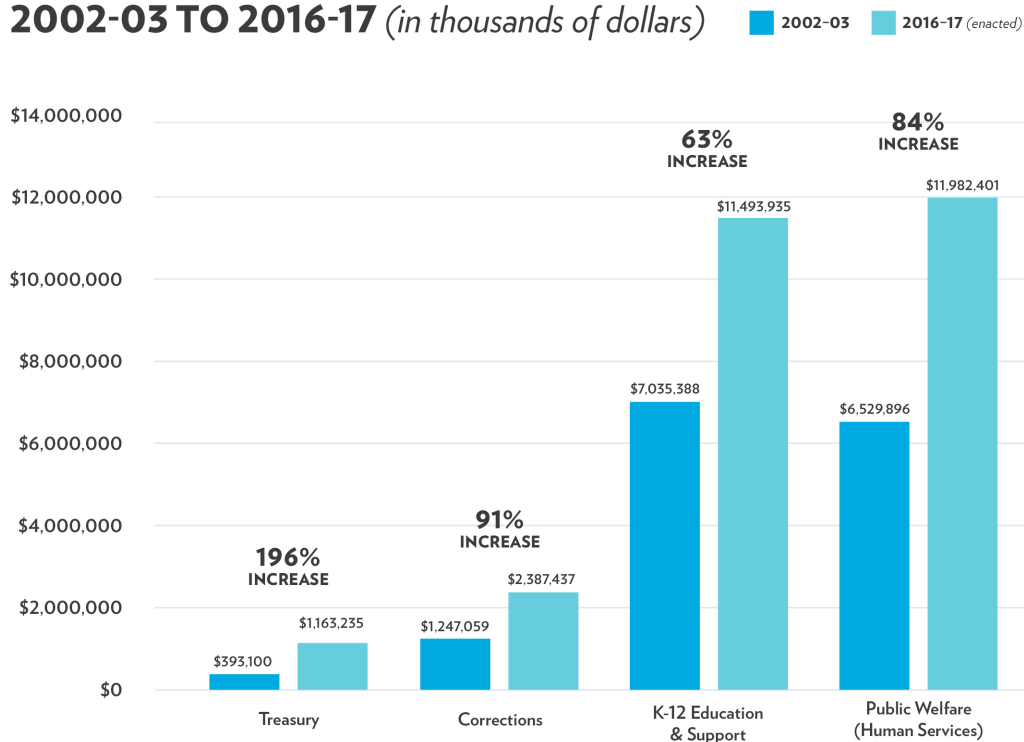


Sources: Governor’s Executive Budget (<http://www.budget.state.pa.us>), U.S. Census Bureau (<http://www.census.gov/>), U.S. Bureau of Labor Statistics (<http://www.bls.gov/>)”

RELYING ON NEW REVENUE INSTEAD OF ADDRESSING COST DRIVERS

- The 2016-17 budget violates Pennsylvania’s Constitution because it is unbalanced, relying on a mix of uncertain and unsustainable revenue sources to cover excessive spending. Revenue sources include the following assumptions:
 - **\$200 million loan from the medical malpractice fund.** The legislature borrowed \$200 million from the Pennsylvania Professional Liability Joint Underwriting Association to balance the budget.
 - **Approximately \$100 million from future legalization of online gambling.** The legislature has yet to pass a bill legalizing online gambling. Revenue from legalization is supposed to help balance the current budget.
 - **\$149 million from wine modernization.** According to the Independent Fiscal Office (IFO), changes to the laws governing alcohol will bring in \$76 million less than legislative projections—or about \$73 million in the 2016-17 fiscal year.
 - **\$75 million from a Philadelphia casino.** The legislature is counting on revenue from a new Philadelphia casino, but the IFO projects it will not materialize during the fiscal year.
- The state’s cost drivers—education, human services, corrections, and debt service—have grown substantially since 2002, making truly balanced budgets increasingly difficult to pass.

PENNSYLVANIA GENERAL FUND SPENDING, 2002-03 TO 2016-17 (in thousands of dollars)



Source: Governor’s Executive Budget (<http://www.budget.state.pa.us>)

- The four categories represented above make up approximately 85 percent of total General Fund spending.
- Since the 2002-03 fiscal year, spending in these categories increased by more than \$11.8 billion—or 78 percent. Spending in all other categories **decreased by more than \$512 million** over the same period.
- Inability to rein in spending in these areas prompted a \$650 million tax increase package last summer.

EDUCATION REVENUE & SPENDING TRENDS

- Funding for Pennsylvania's schools is above the national average. The National Center for Education Statistics puts state revenue per student slightly above the national average, while local revenue per student is 6th in the country.
- Pennsylvania spends approximately \$27.4 billion on K-12 education—the equivalent of \$15,800 per student.
- Education spending will reach an all-time high again in the 2016-17 fiscal year, surpassing \$11 billion for the first time in state history.
- Despite the rise in education spending, academic achievement has not measurably improved.

PENNSYLVANIA'S RISING DEBT AND TAX BURDEN

- The commonwealth has the 15th highest tax burden in the country, up from 24th in 1991.
 - Pennsylvanians pay an average of \$4,589 in state and local taxes, or 10.2 percent of the state's total income.
 - This crushing tax burden is harming Pennsylvania's economy. From 1991 to 2015, Pennsylvania ranked 46th in job growth, 45th in personal income growth, and 46th in population growth.
- As of 2015, Pennsylvanians owe more than \$134 billion in government debt, or **\$10,482 per person**.
- Since 2002, Pennsylvania state debt—including debt held by state agencies—has more than doubled from \$23.1 billion to \$50.9 billion.

PENNSYLVANIA STATE & LOCAL GOVERNMENT DEBT

DEBTOR	DEBT OUTSTANDING	PER PERSON
TOTAL STATE	\$50,976,108,000	\$3,982
State	\$11,632,508,000	\$909
State Agencies & Authorities	\$39,343,600,000	\$3,073
TOTAL LOCAL	\$83,217,301,000	\$6,500
School Districts	\$29,342,577,520	\$2,292
County/Municipal/Twp/Other	\$53,874,723,480	\$4,208
TOTAL	\$134,193,409,000	\$10,482

Sources: Governor's Executive Budget (<http://www.budget.state.pa.us>) December 2015 data; PA Dept. of Education (<http://www.pde.state.pa.us>) June 2015 data; U.S. Census Bureau (<http://www.census.gov/govs/www/estimate.html>) 2013 data

A WAY FORWARD

- Unless the legislature addresses cost drivers in the state budget, lawmakers will continue to face pressure to find new revenue sources and/or expand existing ones, meaning higher taxes on working Pennsylvanians.
- As the 2017-18 budget season approaches, ending Harrisburg's spending spree and keeping spending increases within the limits of the Taxpayer Protection Act must be a priority.