



March 2018

Exposing the Shadow Budget

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*The state budget process **needs an overhaul**. Over the last two years, Pennsylvanians have witnessed unbalanced budgets, unsustainable spending increases, and harmful tax hikes. Additionally, a gross lack of financial transparency makes it difficult to have meaningful discussions about state spending.*

The Growing Shadow Budget

Transparency in state finances is in dramatic decline, according to [testimony](#) from Professor Robert Straus before the Pennsylvania House Appropriations Subcommittee on Fiscal Policy. According to Straus's research, a significant portion of state spending is now in "off-book" accounts—essentially a "shadow budget."

Pennsylvania's shadow budget includes both federal and state appropriations. More than 150 funds comprise the state portion. The commonwealth finances these funds with dedicated revenue sources and/or General Fund transfers.

- For example, lawmakers created the Keystone Recreation, Park and Conservation Fund in 1993. The law (Act 50) created a dedicated revenue source—the Realty Transfer Tax—to finance the fund's operations.
- Recent General Fund transfers include the [removal of the Commonwealth Financing Authority](#) from the General Fund budget and the [redirection of sales tax revenue to the Public Transportation Trust Fund](#) in 2007.

These fund shifts prevent public scrutiny of spending decisions and give the appearance state government is spending less than it is. Fortunately, the legislature can fix this problem by transferring spending into the General Fund, which allows legislators to vote on the merits of these programs.

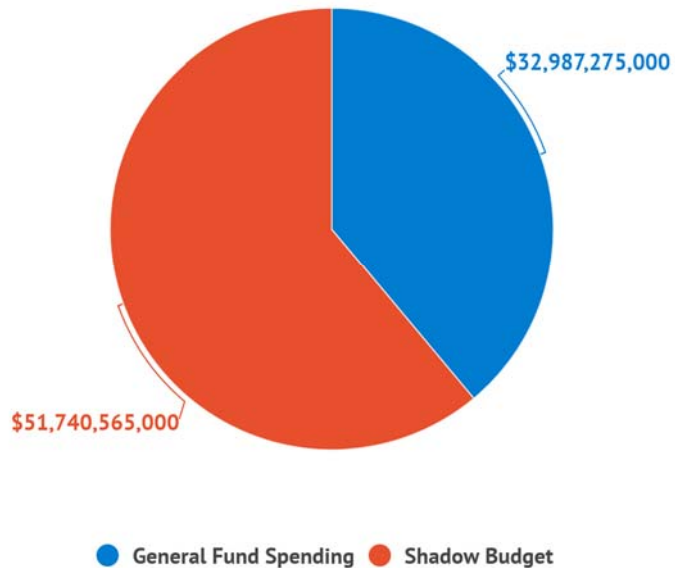
Transfers to the Shadow Budget in Gov. Wolf's 2018-19 Budget Proposal

Gov. Wolf's [most recent budget proposal](#) perfectly illustrates the lack of budget transparency. According to the Wolf Administration, the governor's proposal would increase General Fund spending by roughly \$1 billion.

- Yet, the General Fund would account for *only 39 percent* of [Pennsylvania's total operating budget](#), which comprises all state and federal spending. For fiscal year 2018-19, the total operating budget is projected to **reach \$84.7 billion**.

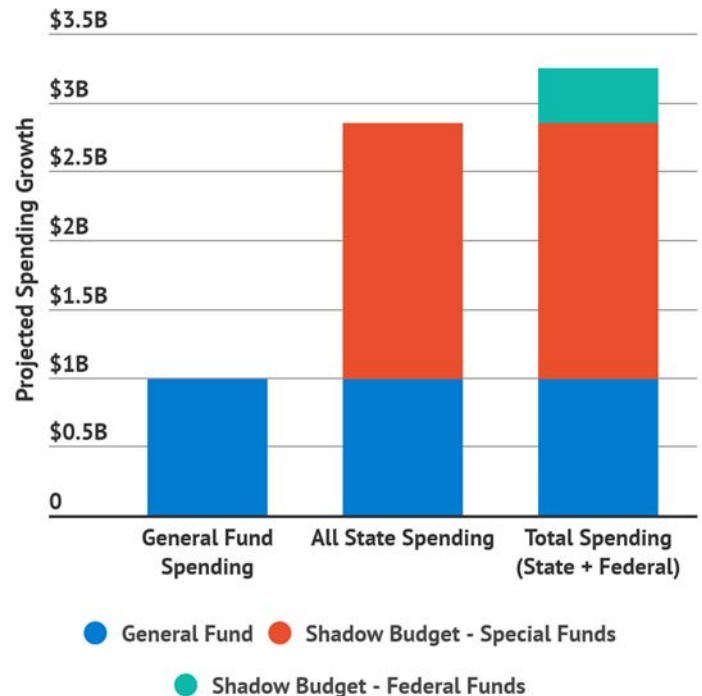
- If you combine the governor’s proposed shadow budget spending increases with increases in the General Fund, total state spending rises by **more than \$2.85 billion**.
- This sum doesn’t include federal funds, which are projected to grow by almost \$400 million. In other words, Pennsylvania’s total operating budget could **increase by nearly \$3.3 billion**.

GENERAL FUND VS. SHADOW BUDGET



Source: 2018-19 Governor’s Executive Budget

PROJECTED SPENDING GROWTH



Source: 2018-19 Governor’s Executive Budget

Why Shadow Budgeting Harms Pennsylvanians

The lack of transparency makes it difficult to recognize large spending increases. For example, in Gov. Wolf’s recent budget proposal, Health & Human Services (HHS) spending would increase by \$221 million. This is historically low; however, HHS spending would grow by more than \$1.1 billion in the shadow budget. This significant policy decision is buried in the [Governor’s Executive Budget](#) book—a 940-page document.

The movement of funds and absence of scrutiny has implications for Pennsylvanians. If policymakers, the media, and taxpayers are only examining a portion of the state budget, they’re less likely to call for spending reforms and more likely to demand higher spending, which places an even greater tax burden on working people.

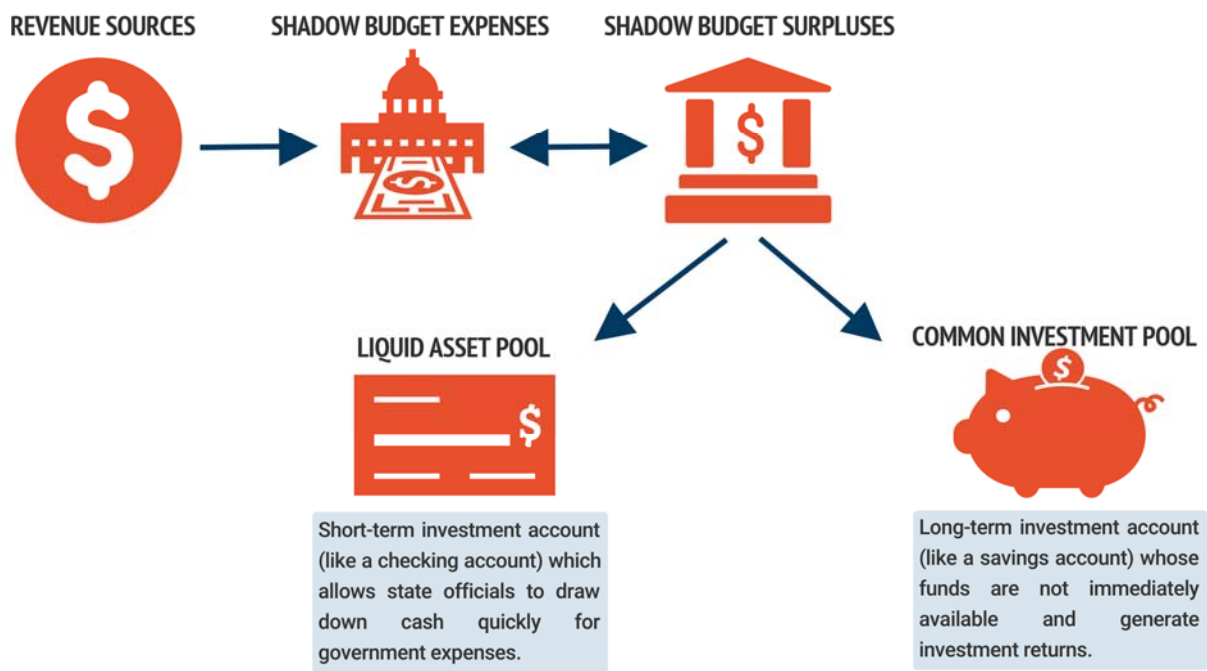
Shadow Budget Surpluses

Last September, a group of House Republicans introduced the Taxpayers’ Budget, which centered around a [proposal to transfer more than \\$1.2 billion](#) from the [shadow budget’s investment pools](#) to balance the budget.

These pools include a “checking” account used to quickly provide funds to state agencies and a “savings” account created to generate investment returns.

- Commonwealth Foundation’s analysis [showed](#) incoming revenue and existing account balances were well in excess of projected shadow budget expenditures for the current fiscal year. In fact, the proposed fund transfers represented just 14 percent of the total funds available in the state’s accounts.
- However, the Wolf Administration claimed the funds identified were already committed for specific purposes and unavailable for use.
- Eventually the legislature agreed to transfer \$300 million from the shadow budget to the General Fund in the 2017-18 fiscal year.
- Instead of moving dollars from existing shadow budget funds, the governor has opted to create a new fund to borrow money and potentially leverage the state’s Farm Show Complex to fill the budget gap.

HOW THE SHADOW BUDGET WORKS



Shadow Budget Spending Transparency

[Commonwealth Foundation analysis](#) of select shadow budget funds in this year’s budget proposal presents a new transparency problem: inflated shadow budget spending projections. The table below displays select special fund balances for the 2017-18 fiscal year, according to the Governor’s Executive Budget.

Note fiscal years are labeled: “Actual Year,” “Available Year,” or “Estimated Year.” Figures in the actual category describe the prior fiscal year. The available category provides projections for the current fiscal year. And the estimated category lists projections for the upcoming fiscal year. Projected 2017-18 fund balances are significantly lower than historical balances displayed in the second table below.

PROJECTED SHADOW BUDGET EXPENSES & RESERVES (FY 2017-18)

Fund	Multimodal Transportation	Keystone Recreation, Park and Conservation	Environmental Stewardship
LAP & CIP Fund Balances (as of June 30, 2017)	\$189,750,791	\$147,590,880	\$104,784,616
Receipts for FY 17-18	\$145,428,000	\$95,691,000	\$95,353,000
Total Available	\$335,178,791	\$243,281,880	\$200,137,616
FY 17-18 Projected Expenditures	(\$334,163,000)	(\$230,639,000)	(\$188,183,000)
Balance	\$1,015,791	\$12,642,880	\$11,954,616

Sources: PA Treasury Transparency Portal & 2018-19 Governor's Executive Budget

SHADOW BUDGET FUND SURPLUSES

Fund	Multimodal Transportation	Keystone Recreation, Park and Conservation	Environmental Stewardship
Available minus Actual 2012-13	N/A*	\$18,200,000	\$47,923,000
Available minus Actual 2013-14	\$19,933,000	\$99,554,000	\$62,092,000
Available minus Actual 2014-15	\$70,254,000	\$117,201,000	\$74,285,000
Available minus Actual 2015-16	\$139,192,000	\$135,483,000	\$91,406,000
Available minus Actual 2016-17	\$88,383,000	\$148,004,000	\$93,674,000

*The Multimodal Transportation Fund was not operational in FY 2012-13.

Source: Governor's Executive Budgets (2012-13 through 2017-18)

Over the last five fiscal years, revenues have consistently exceeded projected spending levels in the available year category. These surplus funds have contributed to the growth of reserves in the state's shadow budget accounts.

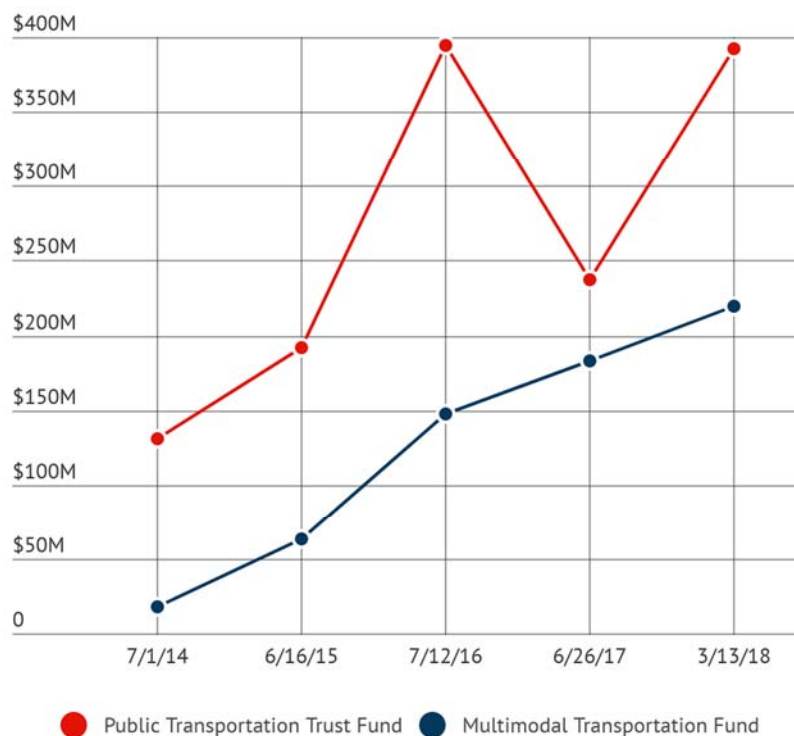
Shadow Budget Commitments

As of this writing, the Wolf Administration **has produced no evidence** that reducing select shadow budget fund balances would do immediate and irreparable harm to state services, though it claims that will be the result.

The Commonwealth Foundation attempted to verify this claim via Right to Know (RTK) requests with eleven different departments and one commission. The governor's Office of the Budget responded on behalf of all departments and the commission. Unfortunately, the office was unable to provide details on future spending commitments, their costs, or expected dates of payment.

If the Office of the Budget doesn't keep track of future commitments across fiscal years, how could Gov. Wolf make claims about **fund transfers jeopardizing services like transportation?** This specific claim is especially odd, considering both the Public Transportation Trust Fund and the Multimodal Transportation Fund have increased their fund balances **since 2014**.

TRANSPORTATION FUND BALANCES (2014-2018)



Source: Treasury Transparency Portal

Shadow Budget Solutions

The legislature is working to shine light on the shadow budget with [House Bill 1943](#). The legislation requires state agencies to produce quarterly reports for each special fund including grants and subsidies allocated but not reflected in the commonwealth's accounting system. It also requires reports to be published near the end of each quarter, detailing the amount of the grant or subsidy, name of the recipient, and date of expected expenditures.

Strengthen HB 1943: HB 1943 is a step in the right direction, but it could be improved by amending the legislation to provide quarterly reports that include the following information:

- All expenses in each fund.
- How expenses and projected expenses will affect the balances of each fund by the end of the current fiscal year and subsequent three fiscal years.
- A ranking of each project based on urgency.
- A short description of each approved project to give taxpayers a better idea of how their money is being spent.

Bring Shadow Budget Spending into the General Fund: Lawmakers can also bring more transparency and accountability to the budget process by moving shadow budget spending into the General Fund. This reorganization would shed much-needed light on the shadow budget and give taxpayers a better idea of how the state is spending their money while giving legislators greater control over the appropriation of state spending.