A Report from the

Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman

Winter 2018

Pennsylvania's Financial Future Brighter in 2018

For the first time since the Great Recession, Pennsylvania's financial outlook appears to be improving. While revenues have been slow to recover in recent years, projections for Fiscal Year 2017-18 are finally showing positive signs.

Through the first seven months of Fiscal Year 2017-18, revenue collections are ahead of estimates by $89.7 million and are 7.9 percent ($1.27 billion) ahead of collections through the first seven months of Fiscal Year 2016-17. The FY 2017-18 Official General Fund Revenue Estimate calls for annual tax revenue growth of 4.5 percent; so with half of the fiscal year behind us, tax revenue collections are on target to exceed expectations.

Even more encouraging is that four of the biggest months for revenue collections (March, April, May and June) are still to come, and they account for 43 percent of the year's General Fund revenues. This gives the Commonwealth a reasonable expectation of finishing the fiscal year ahead of last year's collections and this year's estimates.

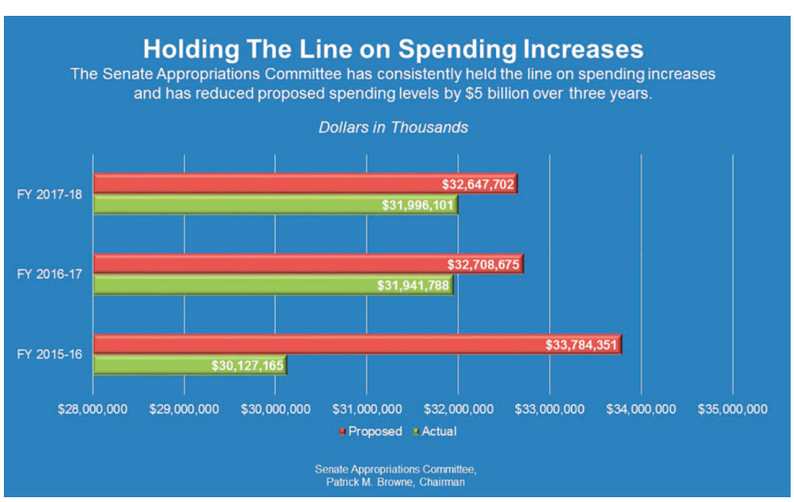
These encouraging signs were reconfirmed in the Administration's 2017-18 Mid-Year Budget Update in December 2017 and again when the Governor released his Fiscal Year 2018-19 state budget on February 6th. The administration indicated they did not foresee any need for increased supplemental appropriations for the remainder of Fiscal Year 2017-18 to fund expenditures.

The Administration also indicated, as the Senate Appropriations Committee has been saying, that the Commonwealth is in the best financial shape since the Great Recession. This is a break from previous years when actual revenue routinely fell below estimates. To illustrate the depth and length of the Great Recession, it took until Fiscal Year 2013-14 for General Fund revenues to exceed receipts for the 2008-09 Fiscal Year. Alternatively, with current revenue performance dramatically improving, tax revenue growth for 2017-18 is expected to increase by $1.3 billion over 2016-17.

Reduced Spending and Smart Budgeting Leads to Fiscal Stability

Improved revenues are not the only reason the state is in a better fiscal position. The diligent and fiscally responsible work the Senate Appropriations Committee has done during these tough budget years to limit the recession's negative effects on Pennsylvania's financials and to control costs and spending has been crucial. Through one-time revenue solutions, expenditure reductions, program eliminations across the state budget and spending increases only to meet federally mandated costs, the General Assembly has been equipped to fight off the need for broad-based tax increases.

The Senate Appropriations Committee recognized the serious need for belt-tightening, even in the face of proposals to increase spending and taxes to record levels. We have consistently held the line on proposed spending increases and have reduced those spending levels by $5 billion over the past three years. This has allowed Pennsylvania to stay on the narrow path of fiscal sustainability during a challenging economic time.



The Fiscal Year 2017-18 $31.996 billion General Fund Budget increased spending by just $54 million or 0.2 percent, which is much lower than the rate of inflation and $650 million less than what was proposed. Even though this is a modest increase in spending, the current year's budget still provides critical increased funding for key areas including Education (Basic Education increased by $100 million, Early Education Funding increased by $30 million, Special Education Funding increased by $25 million and State System of Higher Education Funding increased by $8.9 million) and resources to combat opioid addiction (an additional $18 million).

Since Fiscal Year 2008-09, the Senate Appropriations Committee has passed budgets with an average annual increase of only 1.4 percent, which is far lower than the average rate of inflation growth during the same time period. This fiscal restraint was especially significant due to cost increases of mandatory programs and services. Between 2007-08 and 2017-18, spending in mandated areas of the budget

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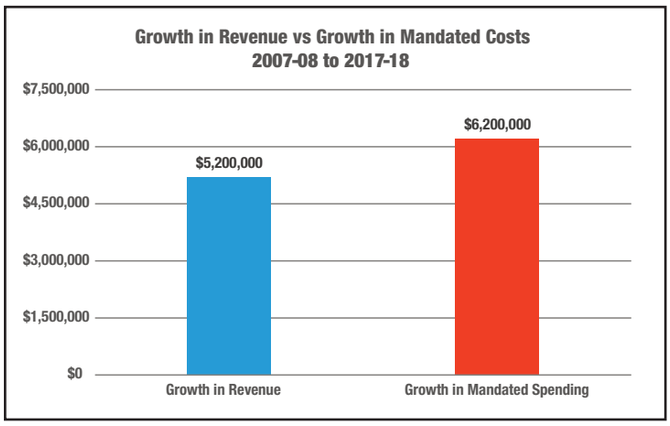
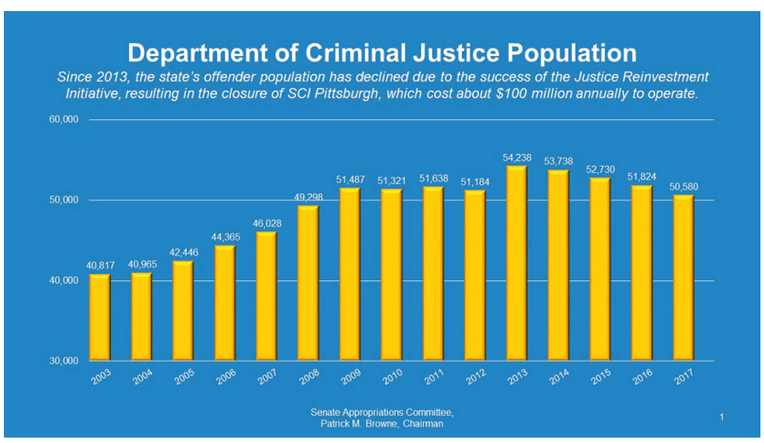
Reduced Spending and Smart Budgeting *...continued from front*

(health care, long-term care, pensions, debt service) increased by $6.2 billion, while revenues grew by only $5.2 billion.



In order to manage this disparity between cost increases and underperforming revenues, the Senate Appropriations Committee recognized areas where long-term service delivery changes were necessary to achieve sustained financial cost reductions to the state. One key area where this was addressed was in reforming the state's correctional system. Due to the success of the Justice Reinvestment Initiative, the state's prison population decreased by 3,658 prisoners from 2013 to 2017 (the largest decrease in over 40 years) saving the Commonwealth approximately $100 million annually while reducing the state's overall crime rate.



In addition, the historic pension legislation (Act 5 of 2017), which I sponsored, produced the most comprehensive reform of public pension systems for the benefit of taxpayers in the country. This pension reform moves away from the traditional fully defined benefit plan and establishes new plan design options for new employees including a side-by-side hybrid that pairs a 401(k) with a smaller defined benefit component and a full 401(k) plan. It also allows current employees to opt into one of the new plans.

The Pennsylvania Independent Fiscal Office (IFO) conservatively estimates the following financial results from this measure:

- $1.4 billion in cash flow savings,
- $4.3 billion in reduced unfunded liability,
- $6.5 billion to $13 billion in risk mitigation based on plan performance.

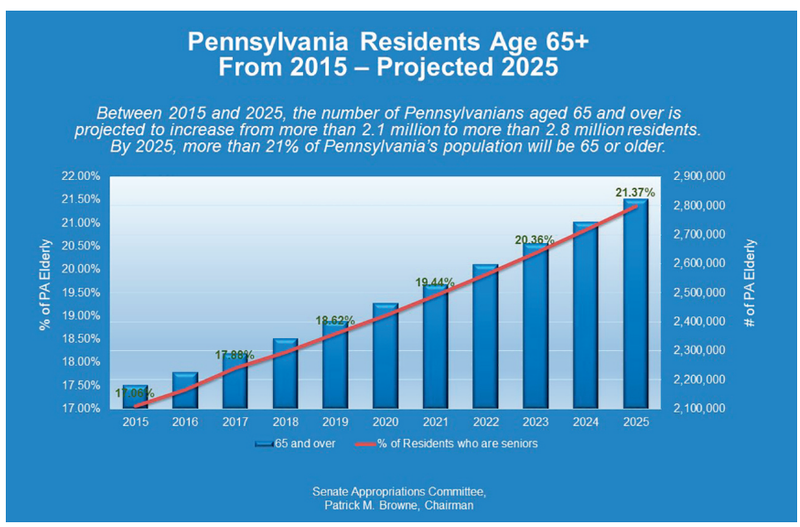
These plans put the state's pension systems on a more sustainable course to long-term fiscal solvency by limiting the risks and additional costs to taxpayers. They also strike a balance between the interests of taxpayers and the need to provide competitive retirement benefits for employees.

The Commonwealth has also reduced staffing levels since 2008 by 7.5 percent from 78,395 to 72,549 including a decline in staffing levels of 1,475 from 2016 to 2017.

These and other cost containment efforts helped close a $1.5 billion deficit entering the 2017-18 state budget. Furthermore, according to the Independent Fiscal Office, these efforts have improved the state's fiscal alignment. Revised estimates predict that after Fiscal Year 2017-18, revenues will grow by 3.2 percent compared to mandated expenditure growth of 3.3 percent. Previous year estimates had forecasted long-term expenditures exceeding revenues by 0.5 percent. Improved revenue performance and fiscal stewardship has nearly eliminated this alarming long-term growth rate gap.

Challenges Still Ahead

Even as Pennsylvania's fiscal health has improved, there are still some areas of concern. One of the biggest challenges facing the Commonwealth is the state's aging population and the financial stress the state's vital assistance for the care of our older population will have on the state's finances.



The number of Pennsylvania residents aged 65 and older is projected to grow from 2.1 million in 2015 to more than 2.8 million in 2025, a 33 percent increase. During that same timeframe, projections show that the percentage of Pennsylvania's total population aged 65 and older will grow from 17 percent to over 21 percent. In December of 2017, the Independent Fiscal Office projected that by 2020 Pennsylvania's population aged 65 to 79 will have increased by 264,000 and will increase again by another 284,000 by 2025. At the same time, Pennsylvania's population aged 20 to 64 will decrease by 101,000 by 2020 and another 65,000 by 2025.

In addition to the financial obligations driven by an aging population, health care access and care for individuals with disabilities also create financial challenges. From Fiscal Year 2008-09 to Fiscal Year 2017-18, funding for long-term care for seniors and individuals with disabilities has increased from $1.6 billion to $3.9 billion or a 143 percent increase. Meanwhile, the caseload of Pennsylvanians needing Medical Assistance has grown by 1 million from Fiscal Year 2008-09 to Fiscal Year 2017-18.

Along with the cost of human services to Pennsylvania's most vulnerable populations, school district pensions, corrections and debt service account for the majority of the Commonwealth's mandatory cost drivers. These four areas have led to increased spending from 2008-09 to 2017-18 of $5.6 billion, while all other areas of the state budget decreased during that same time period by $604 million.

Lack of Rainy Day Funds

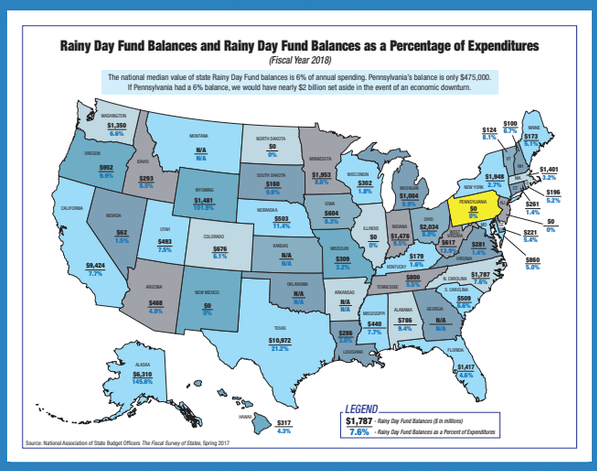
As it is prudent for families, it is important for any organization to carry a reasonable amount of cash in its savings account to weather unexpected events. Unfortunately, as of the 2017-18 budget year, the Commonwealth lacks significant reserves to provide security for the state and its taxpayers if there is another downturn in the economy.

The state's current reserves present significant risk to the Commonwealth's future fiscal condition. Our Rainy Day Fund's balances have eroded significantly over the past 10 years as part of the effort to address the state's fiscal challenges. The fund now has a balance of only $475,000, which is dramatically lower in comparison to $1.13 billion in 2000-01 or $755 million in 2008-09. Now that the state's finances are stabilizing after 10 years of fiscal restraint, the Senate Appropriations Committee believes it is necessary for Pennsylvania to begin making recurring deposits to its Rainy Day Fund.

The range of reserves that ratings agencies recommend is 5 percent to 15 percent of spending – which would be $1.6 billion to $4.8 billion for Pennsylvania. If Pennsylvania were at the median percentage reserve levels of all states, it would have about $2 billion in its Rainy Day Fund.

A recent report by Moody's Analytics rated Pennsylvania among the least prepared states in the nation to handle a recession. The study assessed states' reserve levels, the potential for tax revenue shortfalls and increased needs for Medicaid spending that often occur during economic downturns. Without sufficient reserves, if a recession occurs in the near term, Pennsylvania would again face very significant short-term financial challenges.

Rainy Day Fund Balances Across the Nation



Regional Rainy Day Fund Balances	$ (in millions)	% of Spending
West Virginia	$617	13.9%
Ohio	$2,034	6.0%
Delaware	$221	5.4%
Maryland	$860	5.0%
New York	$1,948	2.7%
Virginia	$281	1.4%
New Jersey	$0	0.0%
Pennsylvania	$0	0.0%

Senate Appropriations Committee,
Patrick M. Browne, Chairman

Brighter Fiscal Outlook for Pennsylvania Ahead

Overall, however, after years of underperforming revenues and escalating mandated costs together causing a maelstrom of budgeting headaches, the Commonwealth's fiscal outlook looks much brighter. In the near term, this positions the Commonwealth to adopt a Fiscal Year 2018-19 state budget without any new or increased revenues while maintaining support for education, workforce competency and other important initiatives. Looking into the future, fiscal solvency and predictability will be a vital component of any long-term strategy to grow Pennsylvania's economy and attract more businesses and job creators to the state.

The Senate Appropriations Committee's success in identifying spending efficiencies, and implementing more cost-effective strategies to manage mandatory spending obligations, along with improved performance in Pennsylvania's revenue collections, has motivated the IFO to improve the five-year outlook for Pennsylvania. Each year, the IFO develops a five-year financial projection for the General Fund based on historical spending patterns and revenue assumptions. Recognizing these trends, the IFO's 2017 five-year outlook improved by a cumulative $4.3 billion since last year.

Senate Appropriations Committee Recap

As we continue into the New Year and another budget cycle, it gives us an opportunity to look back on 2017 and recap the activities of the Senate Appropriations Committee.

Some key legislation that came out of the Appropriations Committee included:

Performance-Based Budgeting Bill Becomes Law

(Act 48 of 2017) – This landmark legislation requires the Governor's Budget Office and the Independent Fiscal Office (IFO) to establish a schedule of performance-based budget reviews for all agencies at least once every five years. The reviews will include the following:

- Agency mission statement and goals and objectives for the budget year and successive planning years.
- Detailed descriptions of all agency line item appropriations and programs.
- Descriptive information and data related to existing performance measures for appropriations and programs.
- Any other information as the IFO may require.

The new law also establishes an independent Performance-Based Budget Board to review the budget plans developed by the IFO and to make recommendations on how each agency's operations and programs may be made more transparent, effective and efficient.

Another busy and active legislative year for the Senate Appropriations Committee.

Total Hearings & Meetings: 68
Budget Hearings: 25
Committee Meetings: 36
Subcommittee Meetings: 7

Bills Referred to Committee:		Bills Referred out of Committee:	
Senate Bills:	149	Senate Bills:	89
House Bills:	64	House Bills:	45
Resolutions:	4	Resolutions:	2
Total Bills:	213	Total Bills:	134

To view more legislation passed out of the Senate Appropriations Committee, visit our website at http://appropriations.pasenategop.com.

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Constituent Information Corner

REAL ID Update: Plan Ahead to Get Your Documents Early

The REAL ID Act, passed by the U.S. Congress in 2005, requires changes to state standards, procedures and requirements for the issuance of driver's licenses and identification cards if they are to be accepted as identity documents by the federal government.

Although REAL ID driver's licenses and identification cards will not be available in Pennsylvania until 2019, PennDOT is encouraging residents who wish to obtain these identification cards to get the required documents to apply together early.

Anyone applying for a REAL ID must have all of the following documents: a birth certificate with a raised seal, a Social Security card, proof of all legal name changes and two proofs of your current Pennsylvania address. All of my offices have staff available to help with obtaining copies of your birth certificate, which can take a few months to process.

The federal government has extended the deadline for REAL ID compliance in Pennsylvania to Oct. 10, 2018, so current driver licenses and identifications are still accepted for domestic air travel and entry into certain federal facilities.

Establishment of the Statewide 2-1-1 System Grant Program Act

Pennsylvania's 2-1-1 services provide a one-stop connection for any Pennsylvanian to get a referral for any service because it possesses the most comprehensive database of public and private resources available. It connects people in need of health and human services, housing, veterans and opioid assistance available through government programs and private and non-profit organizations in their communities.

It is available every hour of every day in the Commonwealth by phone, text, email or web in most regions and is free and confidential.

PA's 2-1-1 system also connects volunteers and donors with organizations who can leverage available resources to meet the needs of the community. For example, the PA 2-1-1 system provides assistance to veterans and their families for financial, health, employment and other services and to individuals and families in need of help with opiate and other drug addiction issues.

The establishment of a statewide 2-1-1 System Grant Program, through Senate Bill 211, which I sponsored, (signed into law as part of Act 44 of 2017) provides for grants to qualified applicants for the development, implementation, operation and support of a statewide 2-1-1 system. It requires the Department of Human Services to develop and implement a process to award grants to qualified applicants. Pennsylvania's 2-1-1 system will receive $750,000 through the Fiscal Year 2017-18 General Fund budget to provide these grants.

Investing in the 2-1-1 system will streamline and improve the delivery of services to Pennsylvanians and also achieve cost-savings for state government. In the future, the PA 2-1-1 system also has the potential to provide assistance to the state and local communities in times of disaster by handling non-emergency calls.

Senator Browne's Upcoming Legislative Events

Document Shredding Event

In conjunction with Rep. Ryan Mackenzie
and Lower Macungie Township
Saturday, May 5, 2018
10 a.m. – 1 p.m.
Lower Macungie Township
Administration Building
3400 Brookside Road
Macungie, PA 18062
(Limit 4 bags/boxes per household)