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### **Two Months, Two Funds Transfers in PA Budget Stalemate**

**Summary:** September 1 marked the beginning of the third month of the 2017-18 Fiscal Year for the commonwealth but there is still no budget (there is a spending plan passed by the Legislature and allowed to become law by the governor, but no revenue plan). There have been two transfers from separately maintained funds to the General Fund to maintain spending at the approved expenditure plan level. More such transfers are being proposed. These will not solve the basic underlying problem of spending more than the state is receiving in revenue.

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The following describes how July 2017 shaped up for the state's General Fund. According to an August 1 press release from the Department of Revenue, \$2.1 billion in General Fund revenue was collected. That total included \$912 million in sales taxes and \$827 million in personal income tax with other General Fund taxes accounting for the rest (corporate net income and cigarette taxes for example.) The July total was slightly above the total from the same month in 2016 (the first month of FY 2016-17) of \$2 billion.

Meanwhile, on the expenditure side, the Office of the Budget's Status of Appropriations document shows that General Fund expenditures from "all current state ledgers" were \$3.2 billion in July of 2017 (these are invoices posted for 2017-18 Fiscal Year spending, according to Budget staff). The July spending reflects current spending only in the 2017-18 Fiscal Year from the General Fund appropriations of \$31.8 billion and does not include Federal monies.

But of course there is no real budget since there is no revenue bill in place to pay for the spending this fiscal year. To be sure, tax dollars are still coming into the Treasury under current law but they were not adequate for last year's spending and certainly not enough to cover the spending approved in the expenditure legislation. Thus, the additional money needed to fill the gap between current revenue and spending had to come from sources outside the General Fund.

First, a \$750 million loan from the Treasury's Liquid Asset Pool (also known as Pool 99 or, as labeled in an August 16 press release from the Treasurer's Office, the Short Term

Investment Pool) to the General Fund was made. Based on a publication on the Treasury's website titled "Commonwealth of Pennsylvania Treasury Investment Policy" dated February 19, 2014, the pool is "...designed to provide a high degree of liquidity and safety" and assets are invested in fixed income cash and cash equivalents.

In the press release the treasurer noted that the Pool "...is not a Rainy Day Fund; it is neither intended nor managed to be a back stop to the General Fund". Based on the 2017-18 state budget document proposed by the governor the Rainy Day Fund (Budget Stabilization Reserve Fund) is to be there to offset revenue shortfalls resulting from economic downturns. On June 30<sup>th</sup>, 2016 the balance in the Fund stood at \$244,000 and the budget proposal included a transfer of 25 percent of General Fund surplus to the Rainy Day Fund. In order to appropriate money held in the Rainy Day Fund a two-thirds vote by both houses of the General Assembly is required.

According to the Treasurer's Office the request for money from the Liquid Asset Pool must be made by the governor through the Office of the Budget to the treasurer. The loan was repaid on August 23.

Second, on August 29 it was reported that the governor transferred \$700 million from the Motor License Fund to the General Fund. The Motor License Fund is supposed to be "...used only for costs of construction, reconstruction, maintenance and repair of and safety on highways and bridges and for the payment of debt service on obligations incurred for such purposes". However, much of the money is an advance payment to the state police and won't affect highway or bridge work, according to published newspaper reports. Based on the Department of Revenue's August 1 press release revenue collected for the Motor License Fund in July totaled \$248 million.

The loan from the Motor License Fund is to help with the state's bills for another two weeks or so. These bills will include a "major" education subsidy payment to the state's school districts, which according to the Department of Education are made in August, October, December, February, April, and June. One news report on the loan said that state law permits such an action and that repayment must be made within 13 months of the borrowing.

And the Motor License Fund transfer might not be the end of the transfers. A proposal put forth by a group of legislators on September 5 would make a series of one-time fund transfers from 41 separate funds—including, to name a few, the Banking Fund, the Job Training Fund, the Multimodal Transportation Fund and the Small Business First Fund—totaling \$1.2 billion in all, just to cover the deficit from the previous fiscal year and as part of a \$2.4 billion proposal for the current fiscal year. It should be noted that the proposed transferring of funds to cover current spending is at best a stopgap measure. It does nothing to address the underlying problem of expenditures exceeding revenues.

So, September is well underway and still no budget agreement for FY 2017-18, making this fiscal year's stalemate already the third longest since 2007. FY 2009-10 and FY 2015-16 stalemates were longer (see *Policy Brief Volume 17, Number 30*).

Unfortunately, given the size of the problem and the political issues regarding how to raise revenue, this stalemate could get much longer. One wonders how far into this stalemate it will be before spending must be curtailed in order to avoid a serious bond rating reduction. Why not do an across the board reduction of five percent at first and make deeper cuts if adequate revenue is not flowing into the Treasury? Some indication of fiscal responsibility needs to be forthcoming soon.

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