

# Pennsylvania's FY 11-12 Balanced Budget Analysis: Read My Budget, Not My Lips

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Table1: PA Budget Comparison FY 10 to FY 12

	FY 10 \$	% Δ FY 09 to FY 10	FY 11 \$	% Δ FY 10 to FY 11	FY 12 \$	% Δ FY 11 to FY 12
Budget	63,577,461,000	1.46%	66,834,059,000	5.12%	63,576,949,000	-4.87%
Estimated IT Budget	1,126,281,000		1,294,962,000	14.99%	1,417,890,000	9.49%
Public Finance (Vert. w/Most Gain)	3,547,276,000		3,547,276,000	14.40%	3,955,380,000	1.48%
Economic Dev./Reg. (Vert. w/Most Loss)	3,993,768,000		3,993,768,000	-5.78%	3,764,898,000	-34.80%
Justice/Public Safety (Vert. w/Most Gain)						
Education - Higher (Vert. w/Most Loss)						

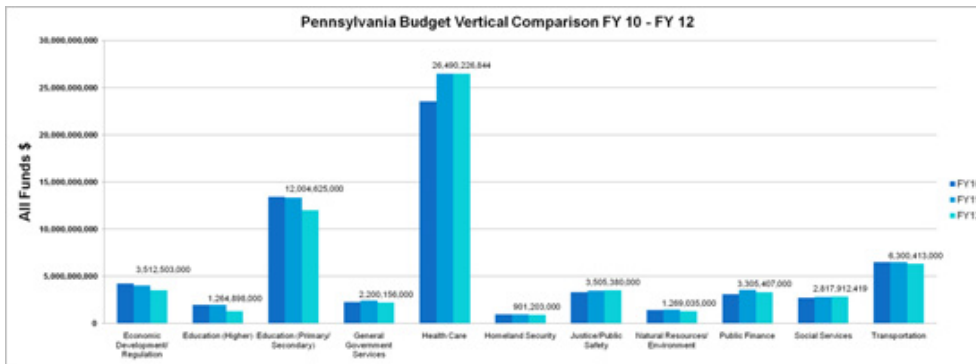
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Source: GovWin and PA Governor's Proposed FY 11 - 12 All Funds Budget

When Pennsylvania Governor Tom Corbett introduced his budget in a pointed address to a joint session of the General Assembly on March 8, 2011, he quipped, "The electorate, its trust scraped to the bone by lies and half truths, isn't going to stand for another broken promise ... I said we'd cut. I'm not asking you to read my lips. I'm asking you to read my budget." True to his word, he proposed to eliminate all \$3.2 billion in previous budget increases from FY 10 to FY 11, returning the FY 12 budget to FY 10 levels of \$63.5 billion in all-fund expenditures. While the quotable one-liners from Corbett's budget address were plentiful, and even entertaining, the reality of a 4.87 percent all-funds reduction from FY 11 to FY 12 will certainly leave some agencies reeling and bring a measure of uncertainty to government contracting with the commonwealth.

For Pennsylvania, these cuts mean changing the way government is conducted. As Corbett indicated, "It's time to peel off the duct tape and get to work on what's broken underneath." Specifically, the governor's proposal focused on improving four key elements: fiscal discipline, free enterprise, limited government, and reform.

Figure 1: PA Budget Comparison FY 10 to FY 12



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Source: GovWin and PA Governor's Proposed FY 11 - 12 All Funds Budget

**Limited and transparent government** According to Corbett, "Limited government means not mistaking someone else's property for your own ... Our job isn't to buy off our problems; it's to solve them." In terms of fiscal discipline, Corbett called for "no new spending." Some specific reduction measures included eliminating \$850 million in budget line items (state pork), no per diem for employees, reducing the vehicle fleet, and reviewing all boards and commissions. Corbett also proposed resetting the basic education funding subsidy to FY 09 levels (down \$1.3 billion) and cutting funding for state-supported universities (down \$676 million), making the dollar value of education cuts the steepest of all verticals in FY 12.

To improve transparency efforts, Corbett wants to improve the state's online portal to include budget, capital and workforce information. While increased transparency will allow for improved business assessment of opportunities in the commonwealth, the governor's announcement of a privatization task force (to determine which functions will be better accomplished by the private sector) is potentially the biggest news for government IT contracting in the entire budget. While the task force is just getting off the ground, privatization efforts often include significant IT projects that introduce cost savings to current government operations (\* see

**NC INSA as a recent example).** As a head start for privatization efforts, the FY 12 budget reduced operational expenses by 2 percent (notably cutting state salaries, benefits, and retirement) and eliminated 1,500 state positions. As a vertical comparison, the proposed cut to general government is \$210 million (8.74 percent) for FY 12.

**Reform** As a mitigation of the effects of deep slashing in education, the governor suggested tax credits, charter schools, dual enrollment for secondary students, and cutting bureaucratic strings (both legal and fiscal) to grant both increased power and responsibility to localities. However, Corbett stopped short of allowing school districts to fully fund cuts by proposing limits to local property tax increases that localities would institute to offset losses in state funds. The governor also wants tort reform to reduce lawsuits, legal reform to bring businesses to the state, and regulatory reform to allow businesses streamlined business opportunities. Finally, while the FY 12 cuts are based upon current tax levels, Corbett suggested cutting taxes even further looking forward, including the Capital Stock and Franchise Tax, the corporate net income tax, the inheritance tax, and other corporate taxes. As the realities of current budget cuts settle in, if tax cuts are also enacted, even deeper spending reductions will be necessary in the future to keep the state budget balanced.

**Public health and safety** According to the governor, "If there's one place you sometimes want government, it's on a lonely road ... We need that protection, plain and simple." While Corbett claimed he would not fund any budget increases, there are technically three verticals with increases in FY 12, with justice and public safety leading the way with a \$51.2 million (1.48 percent) increase. Specifically, he wants to expand crime and violence prevention efforts including increased funding to the state police. Additionally, he proposed increasing correctional funding with more officers, improved medical services, and programs for inmates. Such increases are not surprising considering Corbett's record as attorney general and stated priority in this vertical.

While health care is also stated as one of his priorities, with a 0.05 percent increase in FY 12, Corbett did not give it nearly the budget attention he gave justice and public safety. However, it seems his efforts were mainly focused on preserving programs (disease management, family, and child health) rather than growing them. Cost-saving measures included increasing competition among service providers, increasing flexibility, more community-based care, and eliminating Medicaid fraud. Finally, some of the funding increases were tied to health care IT initiatives (see below for more information).

**Free enterprise** Addressing his free enterprise pillar, Corbett said "We're looking for new jobs ... We have the chance to grow our way out of hard days." While a stated priority, the measures outlined here seem conflicting. For example, he suggested increasing programs that encourage economic growth and job creation, while also suggesting reductions in business incentive programs by 50 percent. Examining the economic development vertical, the budget is cut by \$481 million (12.1 percent) for FY 12. The rest of Corbett's mixed bag includes tax credits, incentives, and programs for technology, research, and chemical companies. So, even with the overall economic development cuts, one unexpected needle in the haystack for IT companies is the tax incentive offered to those willing to establish business offices in the commonwealth. As is a trend in many other states, Pennsylvania will likely look for business opportunities with IT and technology companies that not only bring winning solutions to the state, but also jobs. Every state wants an increased IT business footprint within their borders to increase both future job opportunities and the corporate tax base.

**The commonwealth's IT budget in focus** Perhaps the best news of all for IT contractors is the commonwealth's IT budget. Despite the governor's assertion that there would be no budget growth, IT spending is projected to increase by \$122.9 million, or 9.49 percent from FY 11 to FY 12. Even though doom and gloom dominate in every budget vertical outside of justice and public safety, IT spending continues on an upward trend in Pennsylvania. To read additional detailed vertical analysis about the state's IT budget and projected growth opportunities, [click here \(subscription to GovWin Industry Analysis required\)](#).

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Source: GovWin, Pennsylvania Governor's Proposed FY 11 - 12 All Funds Budget, and Governor Corbett's Budget Address Press Release from March 8, 2011