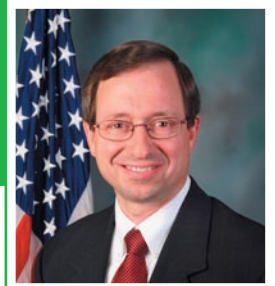




House Finance Committee Backgrounder



Rep. Samuel E. Rohrer
Republican Chairman

Running on Empty

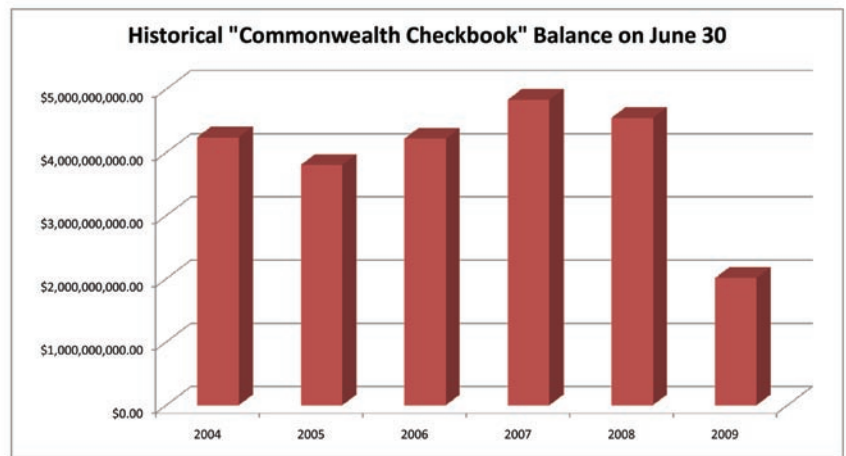
Rendell Budget Would Drain State's 'Checking Account'

Key Points to Remember

- Under Gov. Ed Rendell's budget proposal, the Commonwealth would spend money faster than it would collect taxes, fees and other revenues.
- By October, the Commonwealth's cash on hand - the equivalent of the state's checking account - would have a nearly \$500 million deficit.
- That deficit would grow to more than \$1.3 billion by February 2010, meaning the state would spend approximately \$1.3 billion more than it collects in revenues up to that time.
- To compensate for the deficit, the Commonwealth would have to engage in short-term borrowing.
- Taxpayers would be forced to pay for the costs of this short-term financing.
- Each tax dollar spent to finance short-term debt is another dollar that cannot be used to provide state programs and services.

State's 'Checking Account'

Those who pay close attention to state finances keep a watchful eye on what is known as the state's "cash on hand." It may be helpful to think of this "cash on hand" as the state's equivalent of a family's checking account. This is the money that is available to pay the Commonwealth's bills.



As the new fiscal year begins on July 1, the state's checking account is in a weakened condition. During the past two years, the state has ended the fiscal year with more than \$4 billion in its checking account. This year, however, the state will end the fiscal year with less than \$2 billion in this important account.

Rendell's Budget: Spending Too Much, Too Fast

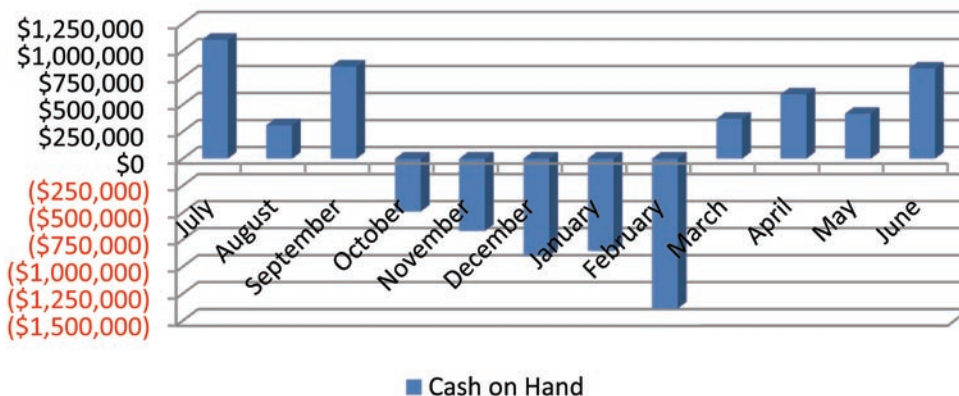
With a low balance in the state's checking account to begin the fiscal year, it is important to ensure state spending does not outpace revenues. Unfortunately, under Rendell's budget proposal, the Commonwealth would spend money faster than it would collect taxes, fees and other revenues. When an entity - whether it's the state government, a business or a family - spends money faster than it collects it, the end result is insolvency.

As the chart on the next page shows, it will take only three months for the state's checking account to be depleted if the Rendell budget proposal is enacted into law.

By October, the Commonwealth's checking account would have a nearly \$500 million deficit. That deficit would grow to more than \$1.3 billion by February 2010, meaning the state would spend approximately \$1.3 billion more than it collects in revenues up to that time.

Rendell 09-10 Cash on Hand

(numbers in thousands)



Why it Matters

In order to continue operating the state government while providing necessary programs and services during the months when expenses outweigh revenues, the Commonwealth would have to obtain short-term debt to cover the deficit. Like with any loan, the debtor - Commonwealth residents and taxpayers - would have to pay back the principle amount borrowed plus interest and any finance charges. Each tax dollar spent to finance short-term debt is another dollar that cannot be used to provide state programs and services. At a time when the state is being forced to tighten its financial belt just like Pennsylvania families, it would be reckless to waste dollars on short-term debt financing instead of using them to pay for the core functions of state government.

Policy Proposals - Answering the Question

Increasing state revenues - through higher taxes on Pennsylvania residents - is not a viable option during the current international economic downturn. Taking more money out of the pockets of Pennsylvania consumers would further depress the Commonwealth's economic situation.

Furthermore, there appears to be little intent on the part of state legislators - even among those in the governor's own political party - to vote for a tax increase. Until the governor can formally announce the names of the 26 senators and 102 representatives who are willing to support his proposal to increase the state Personal Income Tax (PIT), the Legislature should focus its efforts on more plausible solutions.

While there are problems associated with the budget bill (Senate Bill 850) passed by the Senate, its reduced spending would do more to protect Pennsylvania taxpayers against the threat of financial insolvency and the need to engage in expensive and reckless short-term debt to cover expenses.

This analysis shows that, in order to deal with the Commonwealth's cash-on-hand dilemma, legislators must enact a budget that brings spending in line with existing anticipated revenues.

Senate 09-10 Cash on Hand

(numbers in thousands)

