

The Governor's 2005 Pennsylvania Budget

A general overview and its affects on our industry

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On February 9, 2005 Governor Ed Rendell presented his Fiscal Year 2005-2006 Budget proposal to the General Assembly. This article highlights particular areas of interest to insurance producers, focusing on insurance as well as giving a general overview of the proposed Budget. The General Assembly has until June 30 to enact a state budget.

General Overview

The FY 2005-06 Budget calls for a 1.2% increase in the operating budget (including revenue from state monies, federal monies, and revenues from dedicated such as the Tobacco Settlement.). On the expense side, the \$23.8 billion budget means a 3.7% increase (or \$865 million above the current year) because of increases in state Medicaid funding due to federal cutbacks, increase in state debt servicing, and education spending. The Budget appears to reflect a shift to state resources away from federal without curtailing human services. It also demonstrates a priority in workforce training, as shown by increases in Labor & Industry job training and funding for community colleges training. The other observation about the budget is that attempts were made generally to preserve the status quo or change budget amounts up or down incrementally.

This Budget proposal contains some recommendations of the Tax Commission but not all. Continued phase-out of the Capital Stock & Franchise Tax is included. Not included is the Commission's proposal to shift a reduction in Corporate Net Income Taxes to 'S' corporations, LLCs, and LLPs. There is a proposal to lower CNIT from 9.99 percent to 7.99 percent but that will not appear until the FY 2006-2007 Budget because it would not take effect until January 1, 2007.

Examples of hold the line funding include:

- Governor's Office \$7.3 to 7.4 million (This compares with 7.6 million in 2003-2004.)
- Inspector General Welfare Fraud \$26,399,000 to \$26,355,000
- Office of Budget \$30,631,000 to \$30,544,000
- Lt. Gov. \$1,559,000 to \$1,363,000
- Attorney General \$ stayed the same at \$37.8 million
- Auditor General stayed the same at \$46,259,000
- Treasury stayed the same at \$23,976,000
- Library funding increased by \$1.448 million to \$77.891 million in FY 2005-2006

General Fund Revenue Sources for FY 2005-2006

Sales	\$8.267 billion (33.4%)
Personal Income Tax	\$8.967 billion (36.4%)
Corporate Net Income Tax	\$2.082 billion (8.4%)
Inheritance Tax	\$729.4 million (2.9%)
Other	\$1.9 billion (8.0%)

(This includes a 2% Insurance Premium Tax General Fund share of \$433.1 million. It does not include \$85 million from foreign fire insurance companies and \$397.2 million from foreign casualty companies dedicated to police and fire pensions. Surplus Lines tax of 3% generated \$24.5 million plus \$14.6 million from foreign E/S casualty and fire sales.)

NOTES: The Capital Stock & Franchise Tax is expected to generate \$ 869.3 million, down from this Fiscal Year's expected revenue of \$957.8 million. Revenue from cigarettes is expected to drop to \$788.1 million from this FY's \$804 million. This will have an incremental effect on some of the funding for the MCARE abatement fund used to subsidize part of doctors' medical practice premiums.

The 2005-2006 Budget holds that there will be a \$201 million infusion of cash from this FY's surplus. Latest estimates show a projected \$290 million in receipts over what was originally budgeted. The

Administration holds that the Budget shortfall of \$1 billion in lower federal assistance to the state will absorb this revenue.

Where It Goes Proportionally

In addition to looking at the actual numbers, one may also wish to look at proportions of a spending category within the entire Budget. Keep in mind that sometimes these indices may not reflect the entire picture if a funding program (such as job training) as a function may appear in several agencies (L&I, Education, DCED). Following are numbers and percentages for General Fund distributions.

<i>Function</i>	<i>Amount/% 2005-05</i>	<i>2005/06 proposed</i>
Education	9.768 billion (42.4%)	10.010 billion (41.9%)
Health Human Services	8.312 billion (36.1%)	8.872 billion (37.2%)
Crime Law Enforcement	2.499 billion (10.9%)	2.386 billion (10.0%)
Economic Development	599.7 million (2.6%)	446.9 million (1.9%)
Transportation	307 million (1.4%)	312.7 million (1.3%)
Debt Service	400 million (1.7%)	758.7 million (3.2%)
Rainy Day Fund	70.2 million	261.8 million (1.1%)

Another chart of potential interest in looking at state budgeting is by the number of job slots and their changes. Keep in mind that slots do not necessarily mean filled positions. Generally, this budget holds the line on jobs or continues Gov. Rendell's stated goal of shrinking the size of government. Selected agencies include:

<i>Departments</i>	<i>FY 2004-05</i>	<i>FY 2005-2006</i>	<i>Change + or -</i>
- Insurance	408 in	391 in	-17
- DPW	20,536	19,850	-686
- L&I	5,856	5,840	-16
- DCED	358	348	-10
- Agriculture	629	637	+8
- Aging	109	109	N/C
- Governor's Office	91	77	-14

Insurance Department

Following are a number of program measures for the Insurance Department:

<i>Program Measure</i>	<i>FY 2004-2005</i>	<i>FY 2005-2006</i>
Company Liquidations	15	9
Admin. Hearings	170	175
Rate Filings Reviewed	6,800	6,800
Form Filings Reviewed	10,300	10,300
Enforcement Invest. Completions	328	328
Company Market Conduct Exams	32	35
Company Financial Filings Rev'd	2,900	2,900
CHIP Enrollment	136,015	146,021
AdultBasic Enrollment	36,117	41,611

In addition, there are about 800,000 consumer/producer inquiries and complaints per year.

Program Budget

General Gov't	23.042 million	23.042 million
CHIP Admin. (state share)	1.758 million	1.944 million
AdultBasic Admin. (state share)	2.681 million	2.677 million
AdultBasic Program	103.080 million	127.783 million
<i>(This does not include a new Blues subsidy to reduce the waiting list.)</i>		
CHIP (federal)	157.752 million	153.171 million

CHIP (state)	30.7 million	32.149 million
MCARE (General Operations)	23.537 million	23.623 million
MCARE Claims Pay Out	390 million	320 million

Note: Insurance producers may be interested to know that their license fees generate \$26.5 million per year, or more than the Insurance Department's operating budget. Fees paid to the PA Securities Commission by Investment Advisors, Securities Brokers, and for filings are expected to generate \$23 million in FY 2005-2006 for the General Fund.

In order to fund additional AdultBasic recipients, the Budget proposal calls for a reduction in the share of the Tobacco Settlement going to research funding from 19% to 13%. Cessation's share will drop from 12% to 10%.

Other Departments' budgets have some insurance implications:

- Department of Aging did not see a significant budget level change despite a reduction from \$17.6 to \$7.9 million. The reason is that some operating budget expenses in PACE were transferred to funding by the Lottery. Long-Term Care budget emerged unscathed. PACE and PACENET expect to see an increase of \$31.225 million between the two of them.
- Dept. of Environmental Protection's Coal Mine Subsidence Insurance program does not receive General Fund appropriations. Mine Subsidence Insurance Fund available funds are expected to total 45 million in FY 2005-2006 with insurance premiums to total \$5 million.
- A \$2 million Crop Insurance state subsidy would be zeroed out in this proposed budget.
- Funding of Worker's Compensation in the L&I budget is \$1.684 million vs. \$1.989 million currently.
- Securities Commission General Fund total for FY 2005-2006 is \$7.9 million compared to \$7.231 million this FY.
- Department of Public Welfare is trying to trim Medicaid expenditures by administrative fine-tuning and use of co-pays by families with higher incomes with children having severe disabilities (\$21 million). PDW also anticipates \$20.5 million from third party recovery (other insurers).

Available Resources from Insurance-Oriented Specialized Funds

<i>Fund</i>	<i>FY 2004-2005</i>	<i>FY 2005-2006</i>
CAT Fund (auto fee) <i>(used for MCARE abatement fund)</i>	118.6 million	108.4 million
Ins. Fraud Prevention Auth.	13.2 million	12.5 million
MCARE	696.7 million	592.1 million
Self Ins. Guaranty Fund (WC)	25.6 million	22.8 million
SWIF	1.9 billion	2.0 billion

(State Workers Insurance Fund is the state Workers' Compensation insurer of last resort. Premiums received for FY 2004-05 expected to be \$340.0 million and \$330.0 million for 05-06)

WC Supersedes Fund	21.4 million	22.3 million
USTIF <i>(Underground Storage Tank Indemnification Fund)</i>	178.2 million	143.4 million