Memo

The House Appropriations Committee (D)

TO: House Democratic Members and Interested Parties

FROM: Rep. Joseph Markosek, Chairman

SUBJECT: Response to Governor's Mid-Year Budget Briefing

DATE: December 18, 2013

At today's mid-year budget briefing, Sec. Zogby warned that the commonwealth is facing a significant deficit heading into the 2014/15 budget. He identified $1.7 billion in large cost drivers and not nearly enough funds to offset the problem. He portrayed the state's pension payment as one of the main culprits. I urge you to look past the rhetoric.

Next year's budget deficit is largely of the GOP's own making, as it reduced business taxes at a time when the state could not afford to do so. Gov. Corbett claims he cut business taxes by more than $1.2 BILLION over the past three years. By our calculation, those same tax breaks will cost the commonwealth an estimated $880.7 MILLION in 2014/15 alone. (See *Gov. Corbett's Corporate Favors Fast Facts* for more details.)

Instead of rolling back business tax breaks to fill the budget gap, the administration is looking at making changes to the required pension payment and/or reducing employee retirement benefits.

Don't forget, last fiscal year when the governor proposed changing the retirement systems by moving employees to a 401k-style plan, actuaries determined **his plan would cost more money and add to the state's debt**. Further, several experts pointed out that any changes made to current employee retirement benefits would likely be overturned in court.

Just three years ago, the General Assembly passed comprehensive changes to the pension systems. **Act 120 of 2010 reduced benefits for new employees by 60 percent**. New employees fully pay for their own retirement, plus some of the debt. **Act 120 also addressed the unfunded liability by requiring the commonwealth to make its pension payments.**

With several new pension proposals being discussed in the legislature, it is important to consider how each proposal would address the long-term debt. Postponing the employer payment in the short-term increases the debt over the long-term (i.e. comparable to paying less than the minimum payment on credit card debt). Therefore, if the governor tries to reduce or postpone the state's required pension payment next fiscal year, less money will go towards debt repayment, which will only add to the burden of future generations. Not making the required payment could also harm the commonwealth's credit rating. The only way for the commonwealth to control its debt is for it to continue paying its bills.

The governor is trying to make employee retirement benefits a budgetary issue; however, his $1.2 billion in business tax breaks have exacerbated the state's current fiscal situation. Sec. Zogby acknowledged in a recent interview with the Associated Press that there is not much more the administration can cut from state government. **With a looming budget deficit, state agencies and programs cut to the brink, and struggling school districts, it is time for the governor to consider ALL available options, including a fair severance tax on Marcellus Shale drillers, closing corporate tax loopholes and accepting full Medicaid expansion—things that he has taken off the table.**