



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

March 20, 2003

To the Honorable, The House of Representatives
of the Commonwealth of Pennsylvania

I have transmitted under separate cover my approval of House Bill 648, Printer's Number 898, providing appropriations for the General Fund for Fiscal Year 2003-2004. Before signing this Bill, however, I took two actions that deserve a fuller explanation. First, I disapproved the entire basic education subsidy, in addition to disapproving certain other items in the Bill. Second, I signed the official revenue estimate for Fiscal Year 2003-04. That new, and lower, revenue estimate will now govern our work in completing the budget.

On March 4th, I asked the General Assembly not to enact my proposed budget until — and I quote — “we can complete it with a realistic plan to revitalize our economy, our public schools, and our state and local tax structure.” I made this request because while it contains substantially less severe cuts than have been enacted or proposed in most other states facing budget deficits, the budget I proposed will do “nothing to change the condition we find ourselves in at the present and it will doom us to repeat the past.” I asked the General Assembly to wait three weeks so that I could present my Plan for a New Pennsylvania, designed to change our future and provide the economic growth that could lessen much of the hardship this budget imposes on our Commonwealth.

Acting without a single public hearing, the General Assembly chose to ignore my request and enact the budget largely, but not entirely, as proposed. By bypassing the traditional hearing process and passing the budget almost four months before the end of the fiscal year — by far the earliest budget enactment in recent history — the General Assembly not only eliminated all public comment on my proposal but also forced my administration to issue today, more than three months earlier than we had anticipated, an official estimate of the amount of revenues that will be legally available to support Commonwealth spending after July 1, 2003.

Under Pennsylvania law, the Governor may not sign a general appropriations bill until an official revenue estimate has been certified. Once the revenue estimate is certified, the Governor may not sign any further legislation that would increase spending above the estimate unless the General Assembly also provides new revenues to cover those expenditures. The General Assembly's precipitous action on the budget means that my administration must certify General Fund revenues at a time of great economic uncertainty because of looming war in the Mideast and a heightened potential for terrorist attacks in our own country. Twelve years ago, a similar war, and even rumors of war, sent our economy

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into a tailspin as American resources were diverted overseas and the price of oil skyrocketed. Moreover, economic forecasts received since March 4th show a worrisome decline in consumer sales and rise in unemployment. This week, the Federal Reserve Bank, citing uncertainties caused by the war, declined to characterize the risks to the economy or to offer guidance on its future course.

Our uncertainty is compounded because we must now certify the official revenue estimate without the benefit of actual tax receipts for the end of March and the last three months of the fiscal year. The next several weeks are particularly crucial, because over 25 percent of the state's General Fund revenues are typically collected in this period. In briefing legislative leaders and members of the press on the morning of March 4th, the administration noted the uncertainty hanging over the economy and the revenue estimates. We noted that the administration would carefully monitor our tax collections and other economic data as the legislature was considering the budget over what we thought would be the next several months, in the event that revisions to our revenue estimate were necessary.

The enactment of House Bill 648 requires the Budget Secretary and the Revenue Secretary to certify the official revenue estimate today, 15 months before the end of the next fiscal year and in the face of unprecedented economic uncertainty. Acting out of prudence, they have today certified an official estimate that reduces revenues available to support state spending next year from existing General Fund revenue sources by 3.3 percent, or \$700 million, below the amount originally projected.

Additionally, while House Bill 648 appropriates most of the funds necessary for the operation of state government, it does not alone fully enact my proposed budget, even given our original revenue estimates. My March 4th budget proposal called for more than \$500 million in recurring and non-recurring General Fund revenue enhancements to balance the budget. Dozens of statutory changes are needed to implement these proposed enhancements. Examples include the transfer of funds from the Tobacco Settlement Fund to the General Fund, increases in a variety of fees and licenses, and the delay of scheduled reductions in the Capital Stock and Franchise Tax. None of the legislation to implement these proposed enhancements has been enacted. When this missing legislation is coupled with the lower revenue estimates I cited above, the budget the legislature has sent me is effectively out of balance by \$1.2 billion. Under the Pennsylvania Constitution, I am permitted to sign this budget under these circumstances only if I take corrective action and reduce spending by at least that amount.

House Bill 648 is not a complete spending plan for the state. On the expenditure side, the General Assembly must still enact separate bills appropriating over \$700 million for dozens of non-preferred institutions -- universities, museums, and other important entities that depend heavily on state support. I have no doubt that the General Assembly will approve the non-preferred appropriations before the end of the fiscal year, but that action may not insulate them from harm. Under the Pennsylvania Constitution, the state Treasurer must reduce or even eliminate grants to these institutions if insufficient revenues are available. This process of abating non-preferred appropriations would occur without any action by the governor or General Assembly.

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Therefore, on March 25th, when I present to the General Assembly my plan for reforming our schools, reducing property taxes, and revitalizing our economy, I also will recommend measures to protect these institutions and other state-funded programs from the potential adverse consequences of inadequate revenues.

In the meantime, I am signing this budget because it provides the funds needed to operate state government. I also believe that the expenditure reductions included in this budget, while painful, are fair and equitable, and absolutely essential to restoring our fiscal stability. Moreover, enactment of this budget will enable the General Assembly to focus, as its leaders have said they want to do, on my plan for a New Pennsylvania.

As a first step in realizing my plan, I have today disapproved the entire \$4 billion basic education subsidy proposed in this budget. This subsidy, which I inherited from last year's state budget, is both inadequate for the education of our children and unfair to thousands of Pennsylvania homeowners who struggle to pay unreasonably high property taxes. If this subsidy is allowed to stand, school districts all across the Commonwealth will be raising property taxes again this spring to pay for ordinary cost increases in school district operations and for the extraordinary cost of higher pension contributions for their teachers. These pension fund increases are caused by both the plunging stock market and the decision of the previous administration and General Assembly to change the law to impose higher pension contributions requirements – not just in Fiscal 2003-04, but also for years to come. We must, and we will, help school districts cope with these looming costs now while we search for longer term remedies to the pension funding dilemma. Last year's subsidy will not do that. My plan will.

On March 25th, I will present my plan to the General Assembly. I will ask that a new approach be substituted for the inadequate subsidy that I have disapproved today. My plan will provide all 501 school districts with a substantial increase in resources to undertake proven educational programs and to reduce school property taxes by an average of 30 percent statewide. It will also provide resources to cut substantially the resident and nonresident wage tax paid by workers in Philadelphia. It will move state support for schools from 35 percent in the plan I have disapproved toward my goal of 50 percent of actual instructional costs. The plan will include tough measures to hold schools accountable for classroom results and provide citizens with stronger tools to hold down property taxes in the future.

This reduction in property taxes and increase in state spending for education, however, will require an increase in state taxes. But I believe that the people of Pennsylvania will, on balance, judge this plan to be a fairer and more effective way to invest in the future of our children.

My disapproval of the basic education subsidy in House Bill 648 thus frames for the General Assembly the choices we face in public education. It is, as I have said before, a choice between things as they are and things as they ought to be.

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As a co-equal branch of government, the General Assembly may not accept my plan, although I again ask that the plan be afforded due consideration and ample opportunity for the public to be heard. I believe completely in the validity of this approach, and I will fight hard for my vision of how to fund and improve our schools. I remain open to the ideas of members of the General Assembly, many of whom have been working for school and tax reform for many years. I also want to make it clear that my actions will not deprive any school district of the funds needed to open its doors in September. I believe most of the parents, teachers, and school board directors in Pennsylvania will prefer my plan to the old way. If they do, I invite them to join me in asking the General Assembly to treat our taxpayers more fairly and to put our children on a path to a brighter future.

Sincerely,

A handwritten signature in black ink that reads "Edward G. Rendell". The signature is written in a cursive style with a large, prominent "E" and "R".

Edward G. Rendell
Governor