



Legislative UPDATE

The 2009-2010
State Budget



From State Senator Jane Clare Orie • Majority Whip • 40th District

First Time In More Than 40 Years Budget Lower Than Previous Year

State Budget Protects Taxpayers, Lowers State Spending Levels

Dear Friend:

After much delay, the General Assembly has passed and the Governor has signed into law a state budget for FY 2009-10. This letter is intended to recap how the process unfolded and my role. During my time in the General Assembly, I have fought for fiscal restraint and against taxes.

Since 2003, spending under Governor Rendell has increased 39% -- more than twice the increase in the eight years of Governors Ridge and Schweiker. Even with the knowledge of a growing budget deficit, Governor Rendell proposed a budget in February that would have spent \$28.9 billion -- \$1.1 billion more than last year. At different times during consideration of the budget, the Governor called for an increase in the cigarette tax, a new tax on cigars and smokeless tobacco, a new tax on Marcellus Shale drilling, allowing video poker at bars and taxing the proceeds, a 16% increase in the personal income tax, a freeze in the Capital Stock and Franchise Tax and adding the sales tax to a laundry list of other services and products.

My goals for this budget have been clear: control spending, spend less than last year, limit taxes, adoption of

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a sustainable budget, and make the budget process as open as possible to the general public. The Senate passed a budget in May that reflected these priorities. Senate Bill 850 would have spent \$27.3 billion, raised no taxes, and increased funding for schools by 10%, with the use of federal stimulus funding. However, this proposal was called draconian by both Democrats and Republicans in the House of Representatives.

In June, with the state budget deficit at \$3.2 billion, Governor Rendell called for the 16% increase in the PIT. I vigorously fought this tax increase -- speaking against it on the Senate floor and in budget meetings with the Governor.

Meanwhile, it took until July 17th -- well past the June 30 budget deadline -- for the House to pass a budget. Ultimately, the House passed a version of HB 1416 that totaled \$29.1 billion but eliminated \$1.3 billion for higher education -- leaving a gaping hole that they planned on accounting for with a tax increase. Rather than increasing taxes, the Senate amended HB 1416 and set spending at \$27.14 billion while still increasing support for schools by 11%. House Bill 1416 was sent to a joint House/Senate conference committee for a budget to be worked out. While I had been a part of the negotiating team for the Senate Republicans, I was not appointed to serve on the Conference Committee and was in essence removed from the negotiating team.

As the budget impasse continued into August, the House sent the Senate's first budget (SB 850) to the Governor so that he could veto all funding except to pay state employees. While Senate Republicans tried to override the veto, we were not able to garner the two-thirds vote required for override.

In September, a tentative budget deal was reached between Senate Republicans and Senate and House Democrats to spend \$27.945 billion with a cigarette tax increase, a freeze in the Capital Stock and Franchise Tax, and new taxes on cultural events and small games of chance. Let me be clear -- I opposed this deal as it had too much spending and too many taxes. At this time, I was able to make my objections heard -- and ultimately that budget agreement fell apart.

As such, the Senate Republicans put together yet another budget (SB 1085) in October which proposed to spend \$27.835 billion and eliminated the cultural events and small games of chance tax proposals.

After 101 days, a final budget was adopted that reduced spending to \$27.799 billion (HB 1416). I voted for this budget as I believe it accomplishes as much as I could hope for in dealing with Governor Rendell and a Democrat-controlled House -- both of whom were insisting on spending more and increasing more taxes. The budget process was further complicated by the fact that the House Republicans were not fully engaged in the budget process.

Overall, for the first time in more than 40 years, spending has been reduced from the previous year (nearly \$500 million less). While the Capital Stock and Franchise Tax was frozen at its 2008 level (it was to go down), the business community was supportive as three corresponding tax cuts were passed (see the business tax detail box on the back page). Meanwhile, the Cigarette Tax was increased -- something that I reluctantly agreed to since the other proposed taxes on cultural events and small games of chance were eliminated. While this is not the budget I wanted, it is a good



Senator Orietta urges the Governor to restore funding for rape crisis centers, domestic abuse shelters and human services agencies.

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budget in the context of controlling taxes and spending. Furthermore, day care centers, rape crisis and domestic violence centers, schools and other social service agencies could not have survived much longer without a budget in place.

Also, important in the adoption of the budget is the creation of an independent fiscal office. This proposal, which makes the budgetary process more open, has been one of my top legislative priorities this year. Furthermore, this budget eliminates “WAMS” (Walking Around Money) which have been very controversial. It is also my hope that my bill addressing “Pay to Play” will soon be considered. Finally, it is important to note that there is no funding in the budget for the Governor’s controversial Keystone Exams testing scheme, something that I have fought hard against.

It is for these reasons that I supported this budget. Please know that I will continue to work to control spending (I am a sponsor of legislation limiting state spending), fight taxes (including the repeal of the Death Tax), reduce the size of government (I am a sponsor of a Constitutional Amendment to reduce the size of the General Assembly) and work toward a more transparent state government (Pay to Play reform). As a state legislator, I voted against the infamous pay raise, have refused COLAs, and never took the higher pension plan.

Thank you for taking the time to review this information. If you have any questions on this or any other state-related matter, please do not hesitate to contact me or any member of my staff. As always, please visit my website at senatororie.com for updated state information.

Sincerely,



Senator Jane Clare Orie
Majority Whip
40th Sentorial District

Senate’s Goals

With Pennsylvania facing a \$3.2 billion budget shortfall, Senate Republicans’ primary goals for this budget were simple:

1. Spending Must Be Below Last Year’s Level (\$28.2 billion).
2. No Broad-Based Tax Increases (i.e., No increase in the PIT or Sales Tax)
3. The Budget Must Be Sustainable Over Two Years.

The recently-enacted budget accomplishes these goals.

1. For the first time in over 40 years, spending was below the prior year (\$27.7 billion, or nearly \$500 million less than last year).
2. The budget contains no broad-based tax increase.
3. This budget uses realistic projections for both revenues and expenditures and helps put Pennsylvania on the path to move forward as the economy improves.

New Senate Leadership

Since 2007, Senate Republicans – with our new leadership – stood up to a governor with an insatiable appetite for spending.

In 2007, Senate Republicans held the line on taxes, rejecting all seven of the Governor’s proposed tax hikes, which would have totaled \$2.5 billion. Furthermore, the Governor’s proposed spending increase was cut in half to 4.5%.

In 2008, Senate Republicans again held the line on taxes, defeating all five of the Governor’s proposed tax increases. Spending was held to 3.9% – less than the 4.4% rate of inflation and \$150 million less than the Governor sought.

In 2009, Senate Republicans held the line on spending, cutting spending by nearly \$500 million without any broad-based tax increases.

Business Taxes

Most states have either a business income tax or business assets tax – Pennsylvania has both: a Corporate Net Income Tax and a Capital Stock and Franchise Tax (CSFT). In 2000, Governor Tom Ridge proposed phasing out the CFST, which stood at 11.99%. I was a sponsor of this tax cut.

The Capital Stock and Franchise Tax was to be reduced from 2.89% in 2008 to 1.89% in 2009. The new budget freezes the CSFT at the 2.89% rate, reduces it to 1.89% in 2012, reduces it to .89% in 2013, and eliminates it in 2014. Furthermore, the budget allows companies to exempt the first \$160,000 of value from the CSFT (currently at \$150,000).

While the budget unfortunately freezes the CSFT from 2009-2011, the budget contains two of the business community's top tax cuts to the Net Operating Loss and Single Sales Factor.

- 48 other states do not cap the Net Operating Loss (NOL) carry-forward deduction – thus allowing companies to use losses in one year to offset the profits of other years. In PA, the NOL deductions are limited to only \$3 million or 12.5% of a firm's PA taxable income. The new budget allows up to 15% in 2009 and up to 20% in 2010.
- In PA, a corporation's profits are apportioned using three factors: the ratio of sales in PA to all sales (70%); the ratio of assets in PA to all assets (15%); and the ratio of payroll in PA to

total payroll (15%). The business community has sought to base the tax solely on sales. The new budget would apportion the three factors as follows for 2009: 83% on sales; 8.5% on assets; and 8.5% on payroll. In 2010, the three factors would be 90% on sales; 5% on assets; and 5% on payroll.

The business community is in support of these business tax changes:

"Given the substantial fiscal challenges facing the Commonwealth this budget cycle, the pressure from many in state government for more spending and higher taxes, and memories of 1991 still fresh on our minds, business and individual taxpayers faced a potentially disastrous scenario," said Floyd Warner, President of the PA Chamber of Business and Industry. "The PA Chamber commends lawmakers who stood up for fiscal restraint and developed a sustainable budget."

"Given the economic and political realities, CompetePA members believe the bi-partisan agreement represents the best achievable combination of fiscal restraint, economic stimulus and revenue enhancement. While not ideal because of the increase to the Capital Stock and Franchise Tax, the improvements to the NOL and SSF provisions cannot be understated; These proposed changes represent important structural tax reforms that will enhance and accelerate economic growth as the global recession subsides."

State Senator Jane Clare Orie

Majority Whip • 40th District

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