



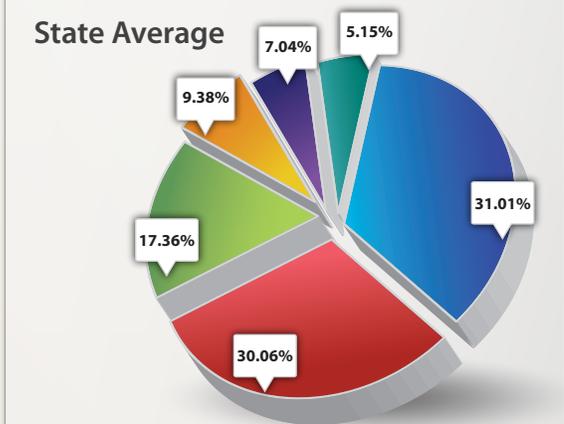
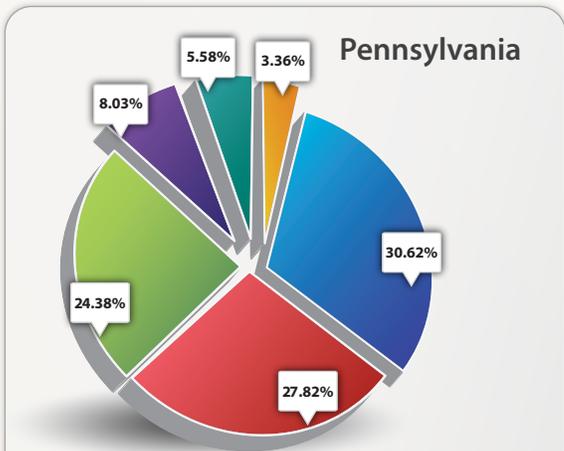
THE McCord Report

A look at Pennsylvania's economic vital signs

Tax Revenues and Deficit

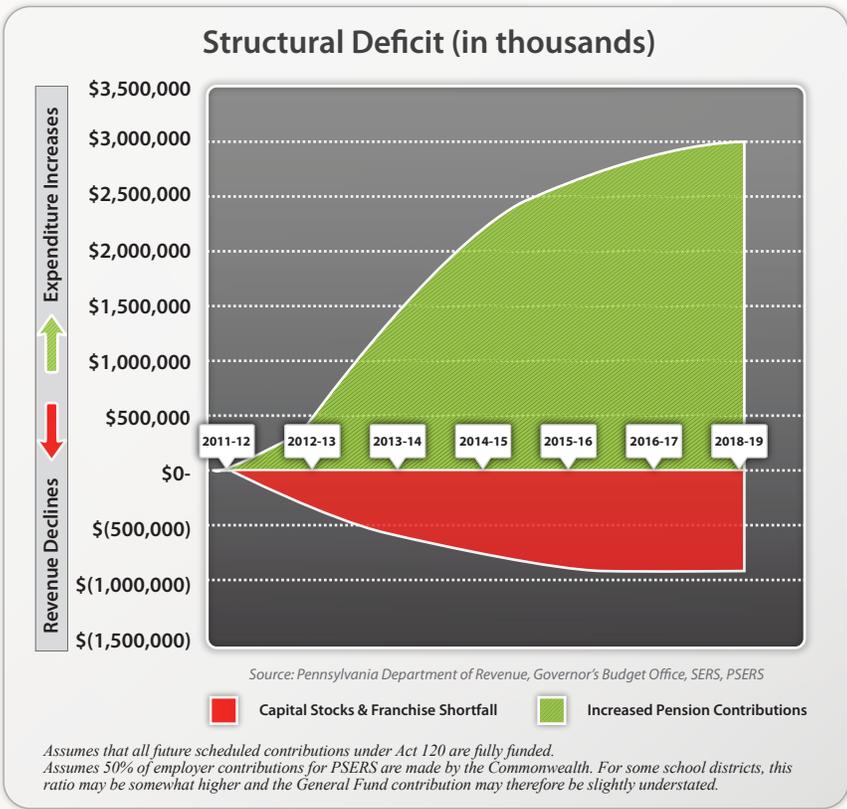
These charts show that Pennsylvania derives a slightly smaller percentage of its total tax revenue from income taxes than other states. Conversely, Pennsylvania derives a higher percentage from Selective Sales and Gross Receipts Taxes, which include taxes on such things as alcoholic beverages, motor fuels sales, public utilities sales, and tobacco sales (much of this attributable to the 18% Johnstown Flood Tax legally required to be imposed upon liquor sales).

The Independent Fiscal Office warned in November 2013 of a growing structural imbalance between revenues and expenditures. Two of the largest drivers of this deficit are the phasing out of the Capital Stock and Franchise Tax and the rise in employer contributions for pensions. Jointly, these two factors will create a nearly \$4 billion mismatch between revenues and expenditures by FY 2018-19.

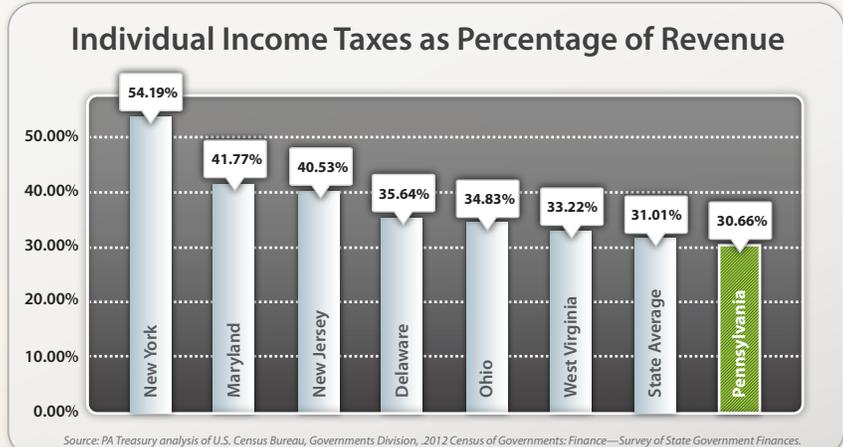


- All Other Taxes
- Selective Sales and Gross Receipts Taxes
- Corporation Net Income Taxes
- General Sales and Gross Receipts Taxes
- License Taxes
- Individual Income Taxes

Source: PA Treasury analysis of U.S. Census Bureau, Governments Division, 2012 Census of Governments: Finance—Survey of State Government Finances.



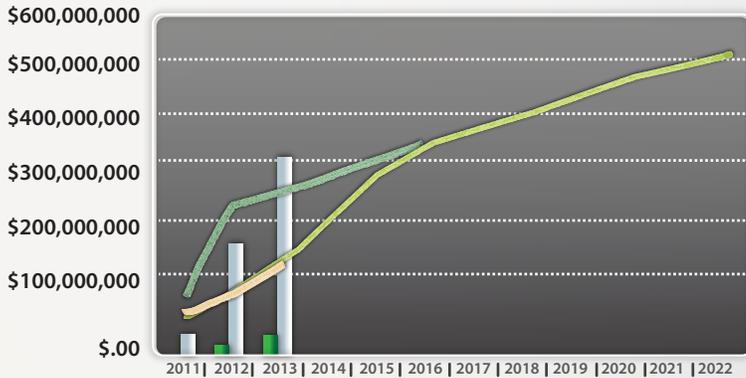
Pennsylvania ranks 31st in the United States in terms of contributions to General Revenue derived from individual income taxes.



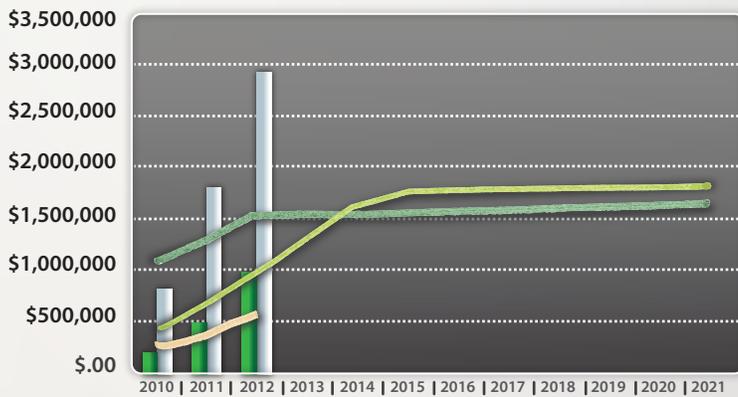
Employer Pension Contribution Shortfalls

In order to manage unfunded liabilities in the two major state pension funds, Act 120 of 2010 reduced required contributions from the state and school districts for the first few years but increased them in later years. These graphs relate employer contributions required before Act 120 to those required after its enactment. They also depict the magnitude of the state's failure to fully fund its contributions even at the reduced levels required by Act 120.

PSERS Employer Contributions (in thousands)



SERS Employer Contributions (in thousands)

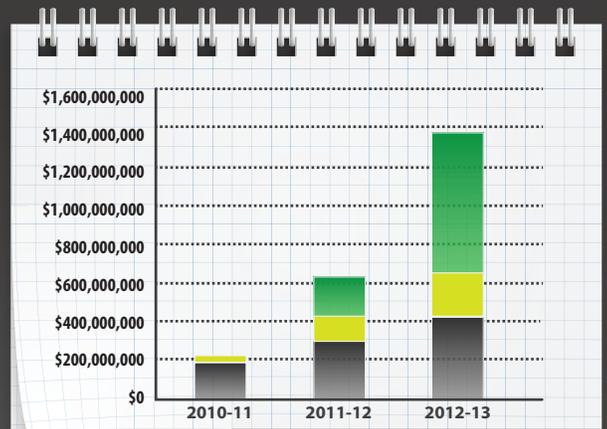


■ Cumulative Shortfall (w/ Act 120 Collars) — Required Contributions (w/ Act 120 Collars) — Actual Contribution
■ Cumulative Shortfall (w/o Act 120 Collars) — Required Contributions (w/o Act 120 Collars)

**PSERS and SERS use different fiscal years. Data are presented for the end of each fund's fiscal year. Sources: SERS, PSERS*

Effect of Contribution Shortfalls

The long-term consequences of contribution shortfalls are greatly exacerbated by lost investment opportunities. An additional \$1.4 billion of available cash would grow to nearly \$6 billion after 20 years of compounded 7.5% returns. Even if the invested funds originated from bond proceeds, conservatively estimated debt service costs would leave approximately \$3.8 billion in net gains. Cumulative shortfalls are the sum of all prior year contribution shortfalls and the assumed returns they would have earned.

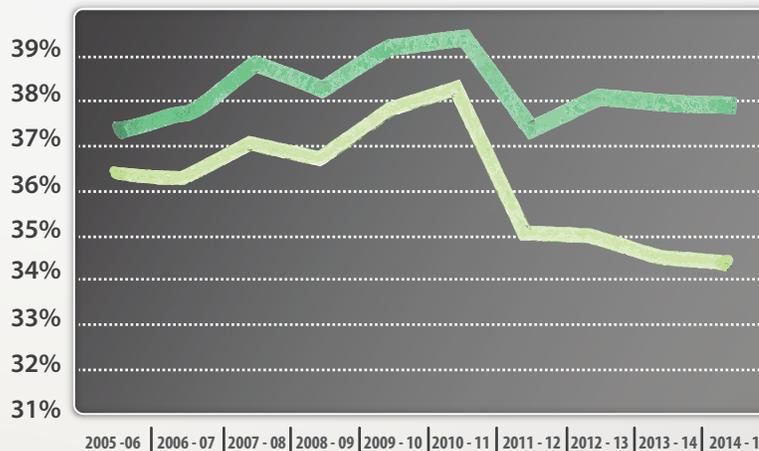


■ Fiscal Year SERS Shortfalls ■ Fiscal Year PSERS Shortfalls ■ Cumulative Shortfalls from Prior Years with Estimated Returns

**PSERS and SERS use different fiscal years. Data are presented for the end of each fund's fiscal year. Sources: SERS, PSERS*

Department of Education Funding as a Percentage of the General Fund Budget

One way for us to measure the investments we make in our children's education is by the percentage of the General Fund budget – our tax dollars – allocated to the Department of Education. This shows the department budget as a percentage of the General Fund budget each year. Increased pension contributions necessary to resolve years of underfunding may be crowding out funds available for students.



■ Department of Education Funding
■ Department of Education Funding minus PSERS Contributions

**Sources: PA Treasury, PA Dept. of Budget*

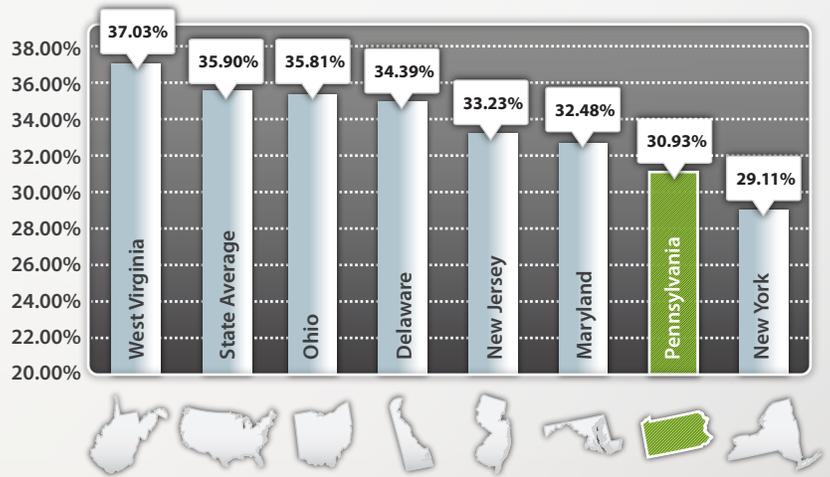
Total Education Funding

Another way for us to evaluate the investments we make in education is to compare how we rank among other states. Pennsylvania places 42nd in terms of the percentage of general expenditures allocated for education from state sources. The chart to the right illustrates how Pennsylvania compares to our neighbors. The chart below shows the sources of revenue that states use to fund education.

Total Education Funding by Source

	FEDERAL	STATE	LOCAL
West Virginia	16%	55%	29%
U.S. (average)	13%	43%	44%
Delaware	12%	59%	29%
Pennsylvania	11%	36%	53%
Ohio	11%	44%	45%
New Jersey	9%	36%	54%
New York	9%	41%	50%
Maryland	8%	42%	51%

Total Education Funding as a Percentage of General Expenditures

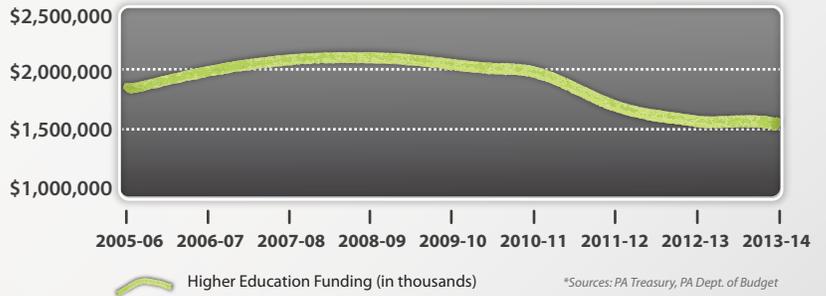


Source: PA Treasury analysis of U.S. Census Bureau, Governments Division, 2012 Census of Governments: Finance—Survey of State Government Finances.

Higher Education

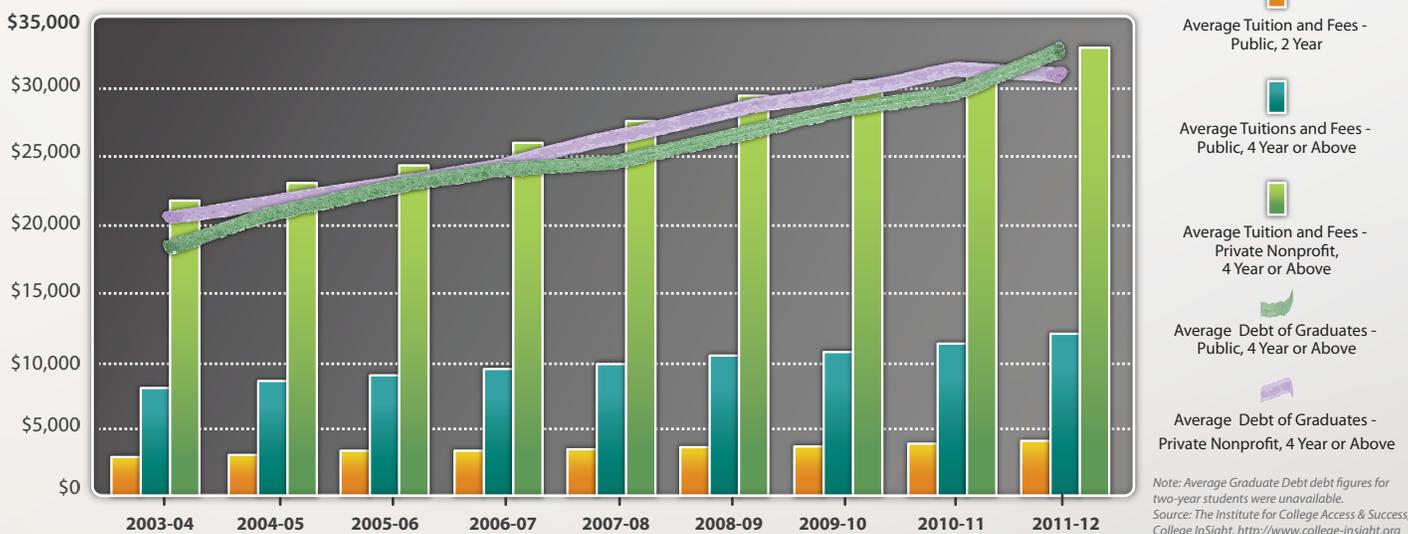
While Pennsylvania's funding for higher education has declined over the past decade, both tuition and student debt levels have increased substantially. These graphs show higher education funding in Pennsylvania and the average tuition of Pennsylvania institutions compared to the debt load of Pennsylvania graduates, whose average is the third highest in the country.

Higher Education Funding (in thousands)



*Sources: PA Treasury, PA Dept. of Budget

Higher Education Average Tuition and Student Debt

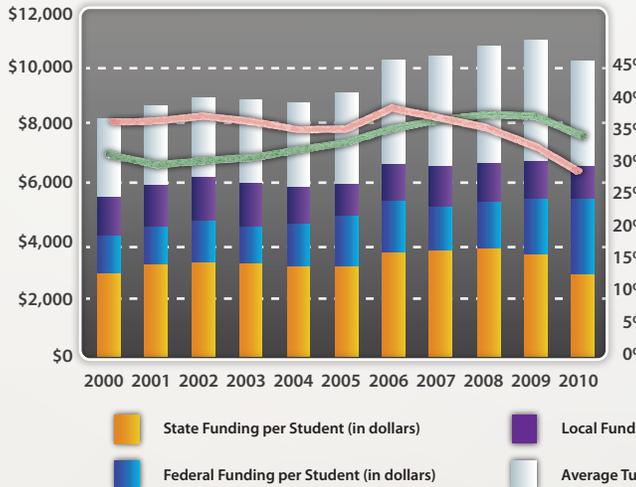


Note: Average Graduate Debt debt figures for two-year students were unavailable.
Source: The Institute for College Access & Success, College InSight, <http://www.college-insight.org>

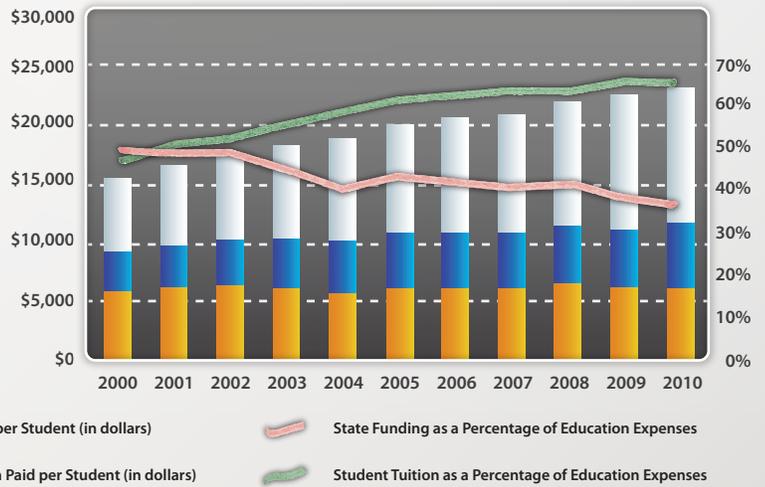
Higher Education Funding by Source

State support for public higher education (four year and two year) has not kept up with increasing costs over the last decade, with students and the federal government having to step in to make up the lost funding. The bars in the charts below show the average per-student contribution by funding source. The lines then show state funding and student tuition as a percentage of education expenses.

Community College Funding



PA State-Owned and Affiliated College Funding



Source: PA Treasury analysis of Delta Cost Project IPEDS Database; National Center for Education Statistics, U.S. Department of Education.

As the Commonwealth government once again addresses its annual obligation to develop and approve a balanced budget for the next fiscal year, officials will be focused on projecting Pennsylvania's revenue and allocating those funds to meet important public priorities.

A thorough understanding of relevant facts is necessary for constructive public-policy discussions and effective strategic decisions. To these ends, this edition of The McCord Report provides information regarding the Commonwealth's tax revenues and two of the larger recipients of those funds: public pension funds and the education community. We hope this data assists policy makers and the public as they grapple with producing a fair and responsible budget.

We take an important step in this edition of The McCord Report towards our goal of presenting economic data in meaningful and interesting ways. We have animated the Structural Deficit graph on page 1 to allow the growth of the structural deficit to be more easily visualized. You can view the animated graph at <http://www.patreasury.gov/StructuralDeficit.html>.

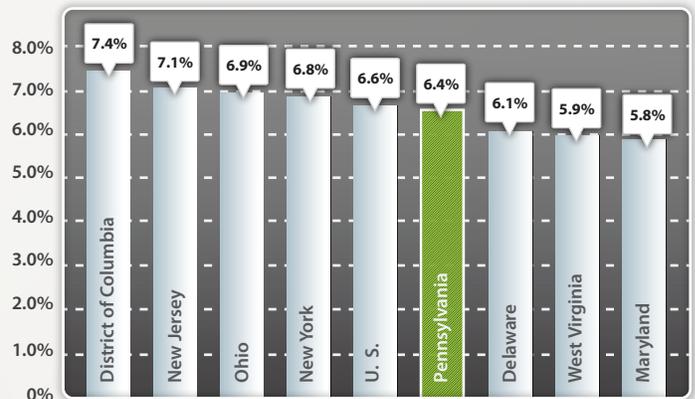
Once again, I encourage you to comment on what we present here and on what you would like to see in the future. I'm especially interested in your reaction to the animation we have introduced. Please do email us at McCordReport@patreasury.gov.

Sincerely,

Rob McCord
Pennsylvania State Treasurer



January 2014 Unemployment Rate



Commonwealth Fund Balances and Performance	Fund Balances (in millions)		Annualized Returns, Net of Fees, for Period Ending December 31, 2013		
	Dec. 31, 2012	Dec. 31, 2013	1 Year	3 Year	5 Year
Tuition Account Program-Guaranteed Savings Plan	\$1,398	\$1,592	15.09%	8.54%	10.91%
198/98 (the Commonwealth's Operating Funds Investment Pool)	\$2,902	\$2,893	10.63%	6.92%	9.02%
99 (the Commonwealth's Operating Funds Liquidity Pool)	\$5,130	\$4,674	0.19%	0.23%	0.30%
SERS (State Employees' Retirement System)	\$25,389	\$26,839	12.60%	9.00%	9.60%
PSERS (Public School Employees' Retirement System)	\$49,022	\$49,765	8.71%	8.09%	10.08%