

Greater Pittsburgh Nonprofit Partnership Leaders Forum: From Expense to Investment

Reframing the nonprofit sector as a solution to state budget challenges

May 29, 2014



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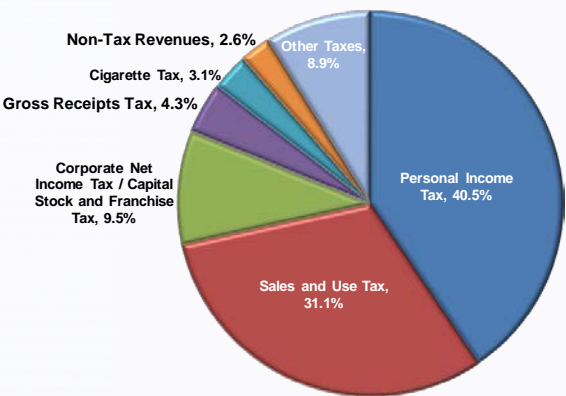
**Greater Pittsburgh Nonprofit Partnership
Leaders Forum: From Expense to Investment**

2014-15 Budget Highlights

Following on three balanced budgets delivered on time, Governor Corbett's 2014-15 Executive Budget is a \$29.4 billion spending plan that combines prudent fiscal management with strategic investments in jobs, education, and health care and human services to build a stronger Pennsylvania.

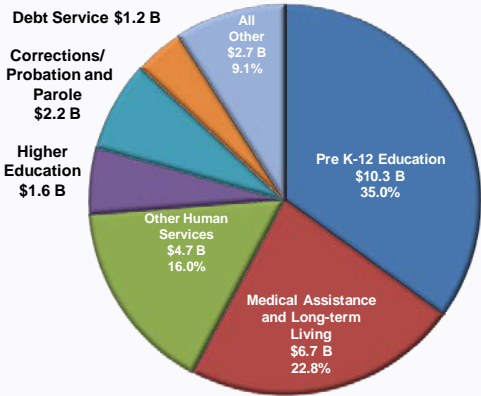
- Governor Corbett's 2014-15 Executive Budget provides for a balanced budget that keeps spending in line with available revenues and does not raise taxes on Pennsylvania families and businesses.
- Spends \$29.4 billion – a 3.3 percent increase over 2013-14.
- The budget includes the Governor's *Building A Stronger Pennsylvania* plan making new strategic investments to address Pennsylvania's three most urgent priorities:
 - ✓ *Jobs*: Growing family-sustaining jobs with targeted investments to spur job creation and economic growth, expand job training programs and continue business tax reductions.
 - ✓ *Education*: Greater support for students, educators and schools, increased accountability and improved transparency backed by historic investments of resources, including a \$241 million *Ready to Learn* Block Grant.
 - ✓ *Health Care*: Implements *Healthy Pennsylvania*, a comprehensive plan to increase access to quality, affordable health care for all Pennsylvanians.

2014-15 General Fund Revenue Sources –
\$30.5 Billion



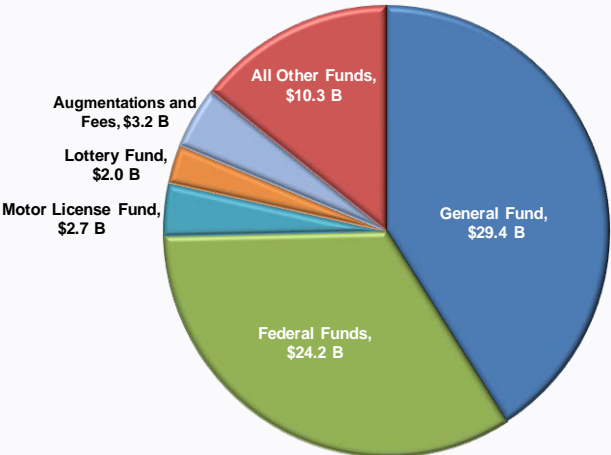
More than two-thirds (72 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales and Use Tax.

2014-15 State General Fund Budget –
\$29.4 Billion



Spending on Education, Human Service programs, Corrections and Debt Service comprises 91 percent of total General Fund obligations.

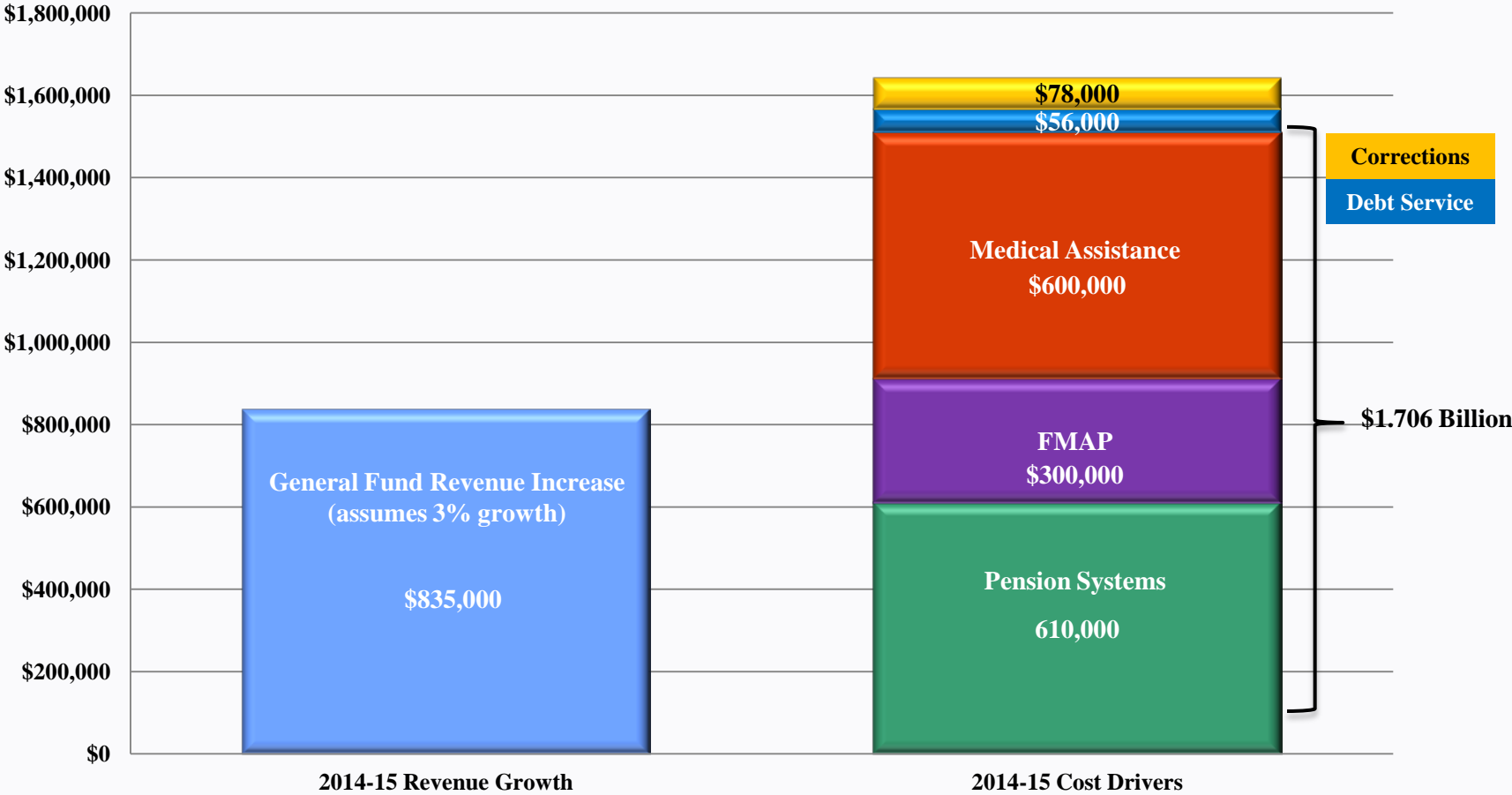
2014-15 Total Operating Budget –
\$71.8 Billion



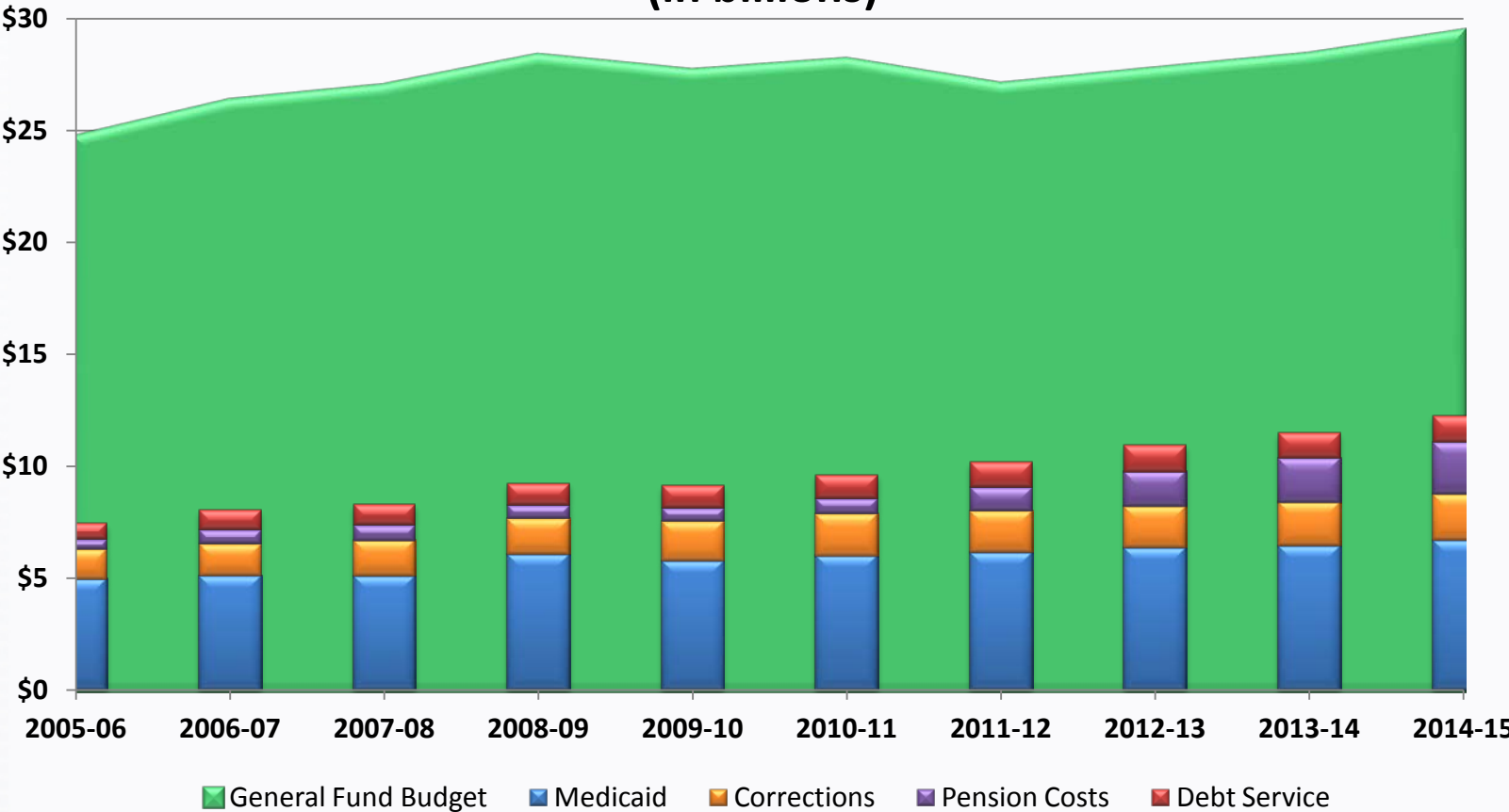
The total 2014-15 operating budget, including all commonwealth funds, is \$71.8 billion. The General Fund represents 41 percent of this amount.

Cost Drivers in the 2014-15 Budget

(in Thousands)

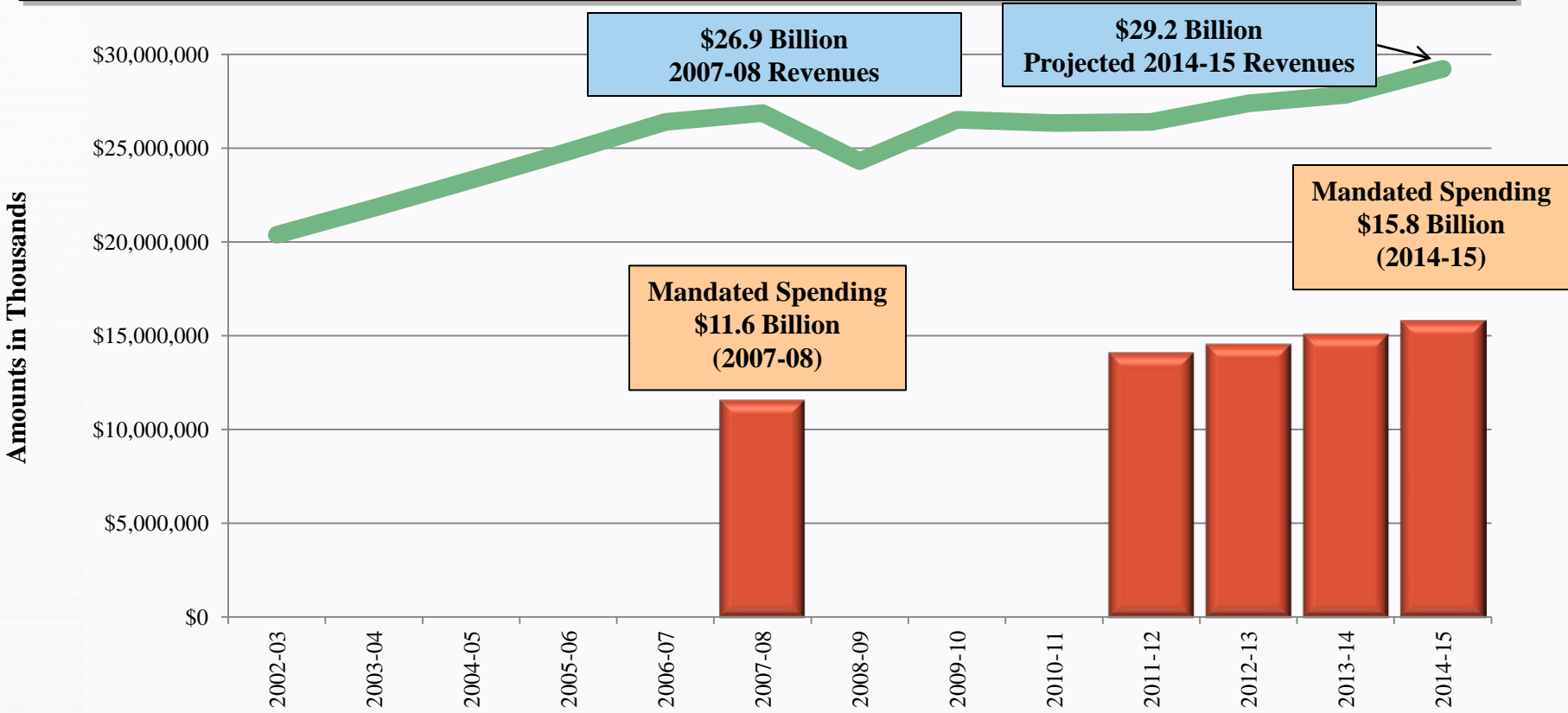


General Fund Cost Drivers
(in billions)



History of General Fund Revenues

Illustrating the depth and length of the Great Recession, the 2012-13 fiscal year was the first time that General Fund revenues were greater than revenues in 2007-08. Between 2007-08 and 2014-15, spending in mandated areas of the budget is estimated to increase by \$4.2 billion, while net revenues will grow by only \$2.3 billion over the same period of time. This imbalance between revenue growth and mandated spending has the effect of crowding out spending in all other areas of the budget.



Mandated spending includes Department of Public Welfare, Corrections, School Employees' Retirement and Debt Service. Revenues include tax refunds.

General Fund Financial Statement

(Dollars in Millions)

	2013-14 <u>Revised</u>	2014-15 <u>Budget</u>
Beginning Balance	\$ 541	\$ 216
Beginning Balance Adjustment	5	0
Revenue Estimate	29,116	30,315
Proposed Revenue Changes	0	225
Refunds	(1,275)	(1,310)
Total Revenue	<u>27,841</u>	<u>29,230</u>
Lapses	251	0
Funds Available	<u>28,638</u>	<u>29,446</u>
Enacted Expenditures	(28,422)	(29,419)
Supplemental Appropriations	(70)	0
Current-Year Lapses	70	0
Total Expenditures	<u>(28,422)</u>	<u>(29,419)</u>
Preliminary Balance	216	27
Transfer to the Rainy Day Fund	0	(7)
Ending Balance	<u>\$ 216</u>	<u>\$ 20</u>

IFO Forecasts for FY 2013-14

	June 2013	Mid-Year	May 2014	Dollar Change
General Fund	\$29,154	-\$150	\$28,547	-\$608
PIT – Withholding	8,829	-60	8,763	-66
PIT – Other	2,891	0	2,679	-211
Sales and Use	9,239	-70	9,140	-100
Corporate Income	2,460	0	2,471	11
Gross Receipts	1,263	0	1,260	-3
Bank Shares	360	0	268	-93
Realty Transfer	424	0	370	-54
All Other	3,688	-20	3,596	-92

Note: millions of dollars.

General Fund Forecast for FY 2014-15

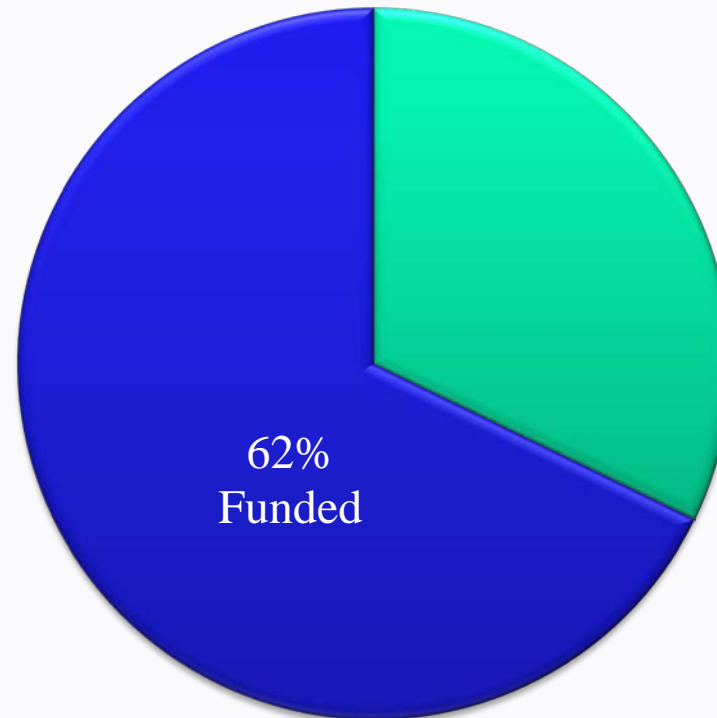
	2013-14	2014-15	Dollar Change	Percent Change
General Fund	\$28,547	\$29,537	\$990	3.5%
PIT - Withholding	8,763	9,077	314	3.6
PIT - Other	2,679	2,950	270	10.1
Sales and Use	9,140	9,473	334	3.7
Corporate Income	2,471	2,484	13	0.5
Gross Receipts	1,260	1,266	6	0.5
Cigarette	984	956	-28	-2.8
All Other	3,250	3,332	82	2.5

Note: millions of dollars.

Pensions and Annuitant Health Care Costs

Pension Costs

Currently, the commonwealth faces a \$50 billion unfunded pension liability. This draws funding away from education, public safety, health and human services and critical infrastructure.



\$50 BILLION
Total Unfunded Liability

Pension Costs

- The commonwealth contributes funds to the State Employees Retirement System (SERS) for its own employees and to the Public School Employees Retirement System (PSERS) for employees of Pennsylvania school districts.

	Active Members	Assets ¹	Funded Ratio	Employee Contribution ²
SERS ³	106,048	\$25.3 B	58.8%	6.25%
PSERS ³	267,428	\$57.5 B	63.8%	7.5%

1. Actuarial value

2. Average employee contribution as a percentage of payroll

3. Per most recent published actuarial valuations

- The General Fund pays the majority of the employer's share of contributions to SERS.
- The commonwealth pays about 55 percent of the employers' share of contributions to PSERS; the remainder is paid by the school districts.

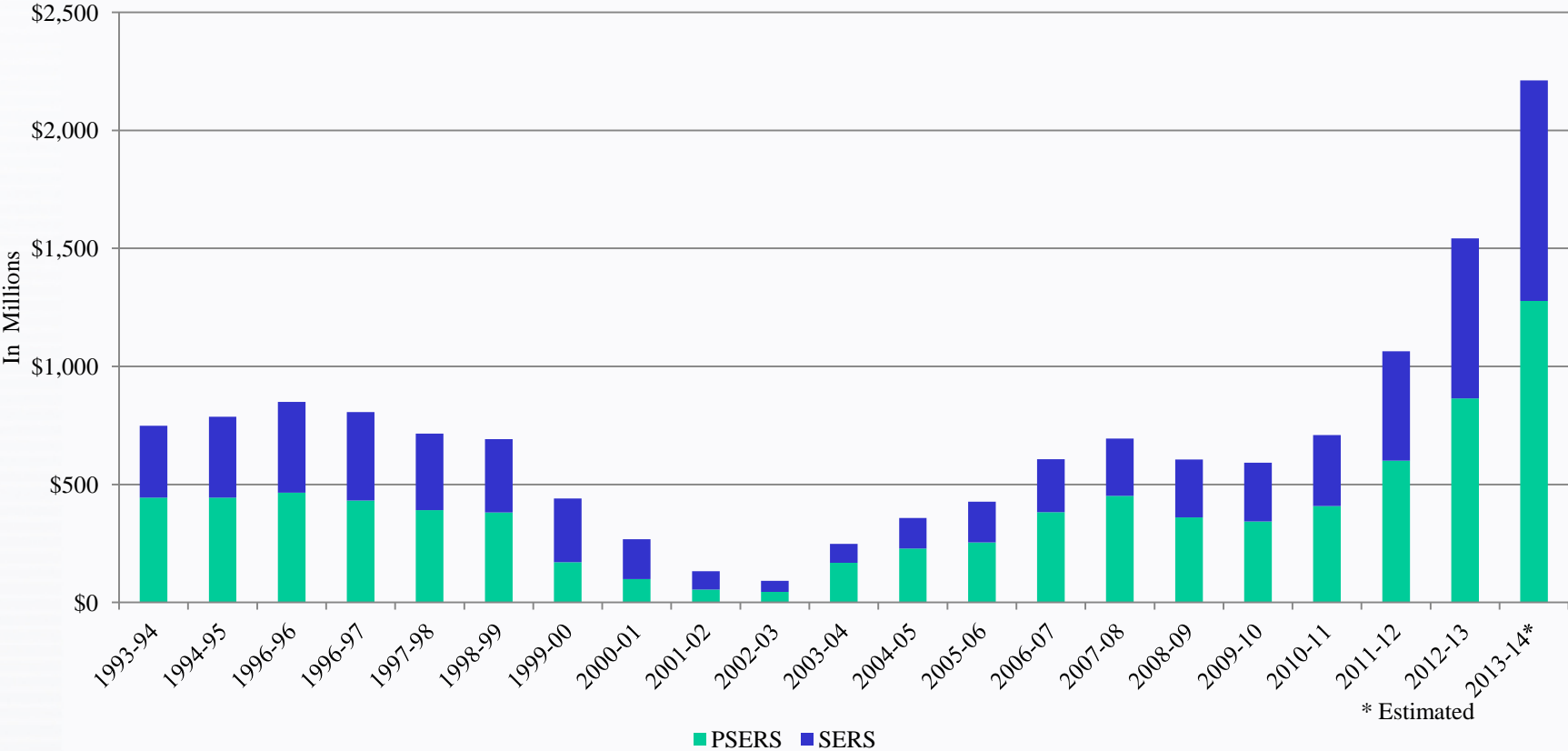
Pension Costs

Contributions to SERS and PSERS have grown rapidly since the current PSCOA agreement was signed and are projected to grow approximately 4.5 percent each year for the next several years. These projections assume market returns of 7.5 percent.

If Pennsylvania's retirement plans do not achieve these returns, the commonwealth's cost will be even greater.

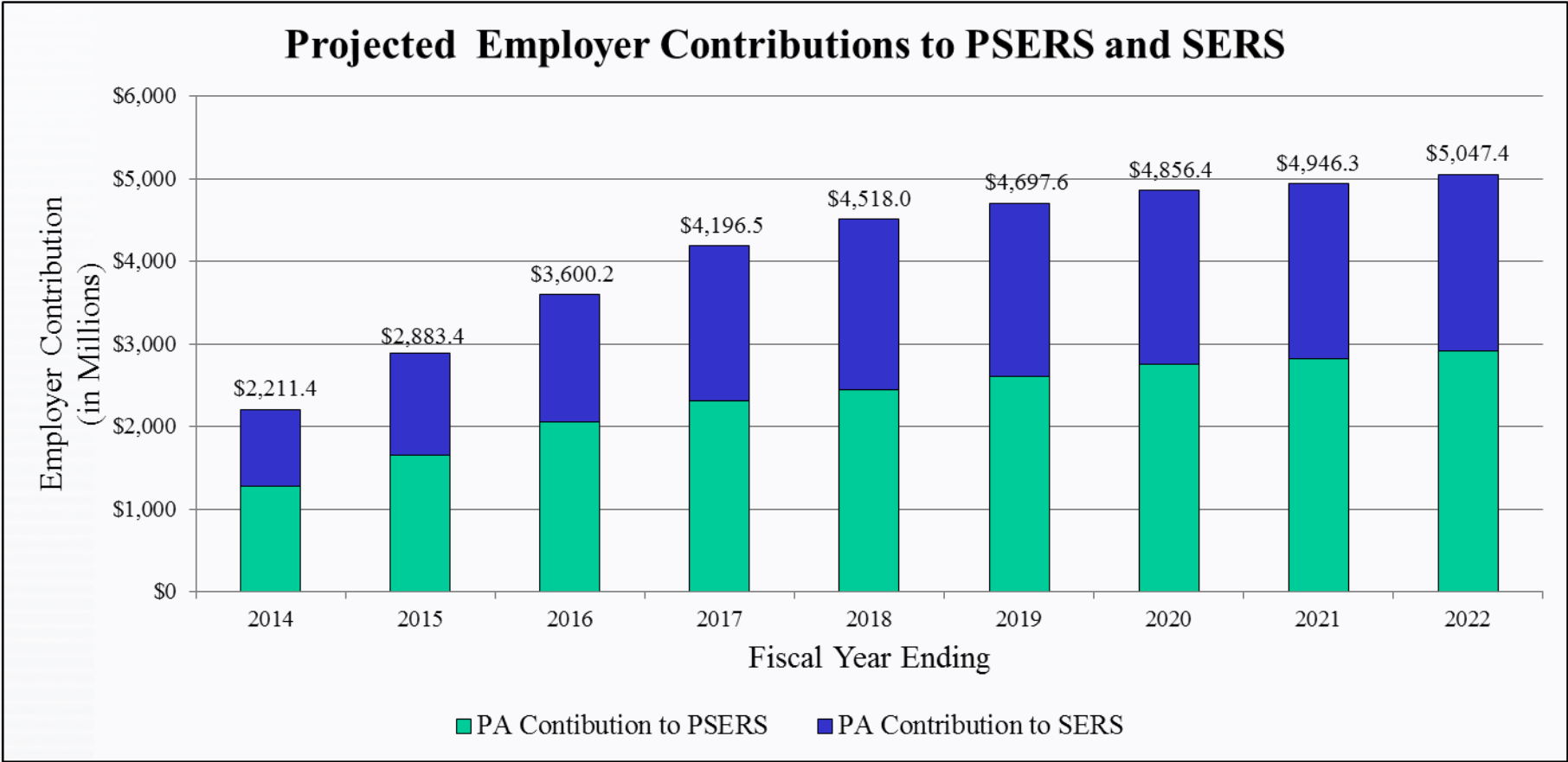
	2008-09 Rates	2008-09 Contributions (\$ millions)	2013-14 Rates	2013-14 Contributions (\$ millions)	2014-15 Rates	Projected 2014-15 Contributions (\$ millions)	2015-16 Rates	Projected 2015-16 Contributions (\$ millions)	2016-17 Rates	Projected 2016-17 Contributions (\$ millions)	2017-18 Rates	Projected 2017-18 Contributions (\$ millions)	2008-09 to 2017-18 % Change
SERS	4.00%	\$245	16.00%	\$933.8	20.50%	\$1,233.0	25.00%	\$1,549.5	29.50%	\$1,884.1	31.43%	\$2,068.6	744.3%
PSERS	4.76%	\$361	16.93%	\$1,277.5	21.31%	\$1,650.4	25.8%	\$2,050.7	28.3%	\$2,312.4	29.15%	\$2,449.3	578.5%
Total		\$606		\$2,211.4		\$2,883.4		\$3,600.2		\$4,196.5		\$4,518.0	645.5%

Employer Pension Contributions



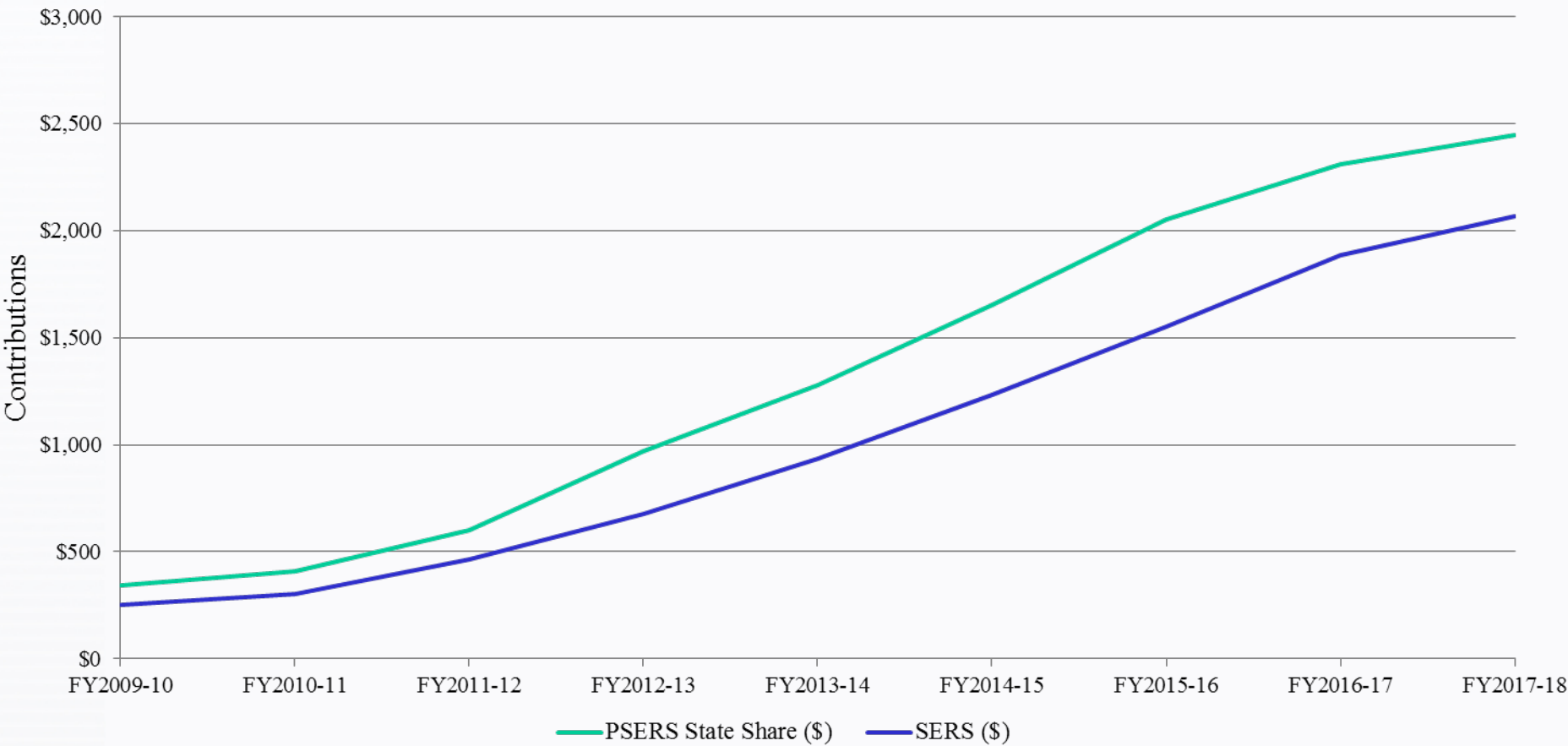
Projected Pension Costs

The state’s contributions to SERS and PSERS will be \$2.21 billion in 2013-14, over the next four years contributions are expected to rise to \$4.52 billion in 2017-18, and by 2021-22, contributions will reach \$5.05 billion – an increase of 129 percent from 2013-14.



Escalating Pension Obligations *

(Dollar Amounts in Millions)



* The chart above reflects current law. However, the Governor’s 2014-15 budget assumes pension collars will be reduced to 2.25 percent starting in 2014-15 and then increase by 0.5 percent each year until the collars reach 4.5 percent or the annual required contribution.

Pension Reform

- **Unsustainable Cost Increases:** Absent pension reform, contributions to the pension systems – PSERS and SERS – are expected to increase by more than \$600 million in 2014-15 and continue to rise significantly crowding out core services and programs.
- **Pension Reform Goals and Objectives:**
 - ~ Protect retirees and the benefits earned by current employees;
 - ~ Significantly reduce future risk to taxpayers;
 - ~ Provide near-term budget relief to the General Fund and local school districts from steep cost increases paid for by long-term savings generated by reform; and
 - ~ Achieve these goals without “kicking the can down the road” by pushing more debt onto future generations of Pennsylvanians.
- **Pension Collars:** The Governor’s 2014-15 budget assumes pension collars will be reduced to 2.25 percent in 2014-15 and then increase by 0.5 percent per year until the collars reach 4.5 percent or the annual required contribution. Resetting the pension collars saves the commonwealth \$170 million and school districts and other local education agencies \$131 million.

New GASB Standards- Pension Reporting

- Governmental Accounting Standards Board (GASB) Statement No. 68 will require governments with defined benefit pension plans to disclose a “net pension liability” (unfunded liability) on their balance sheets
- Reflects the view that pension costs and obligations should be recorded as employees earn them, rather than when the government contributes to a pension plan or when retirees receive benefits.
- Gives clearer view of pension obligations and makes it difficult to push greater unfunded liability into the future
- Disclosure will first be reported in the Commonwealth financial statements for fiscal year ending June 30, 2015 and will negatively impact the Commonwealth’s balance sheet by significantly reducing or eliminating available net assets.

Annuitant Health Care

- The Governmental Accounting Standards Board (GASB) issued Statement 45 that required governments to report financial obligations for post-employment benefits (healthcare) provided to employees as part of their compensation for services.
- Annuitant health care benefits are a very significant financial commitment for governments.
- Prior to GASB Statement 45, governments used a “pay-as-you-go” accounting approach in which the cost of annuitant healthcare is not reported until after employees retire.

Annuitant Health Care

- The commonwealth was required to disclose annuitant health care costs in accordance with GASB 45 beginning with the Comprehensive Annual Financial Report for June 30, 2008.
- The August 2013 valuation for Pennsylvania's net unfunded actuarially accrued liability as of June 30, 2013, is \$16.3 billion.
 - The Retired Employee Health Program portion is \$13.2 billion or **\$90,899 per plan recipient**.
- Rating agencies have indicated they expect governments to take **positive and proactive steps** to address these liabilities.

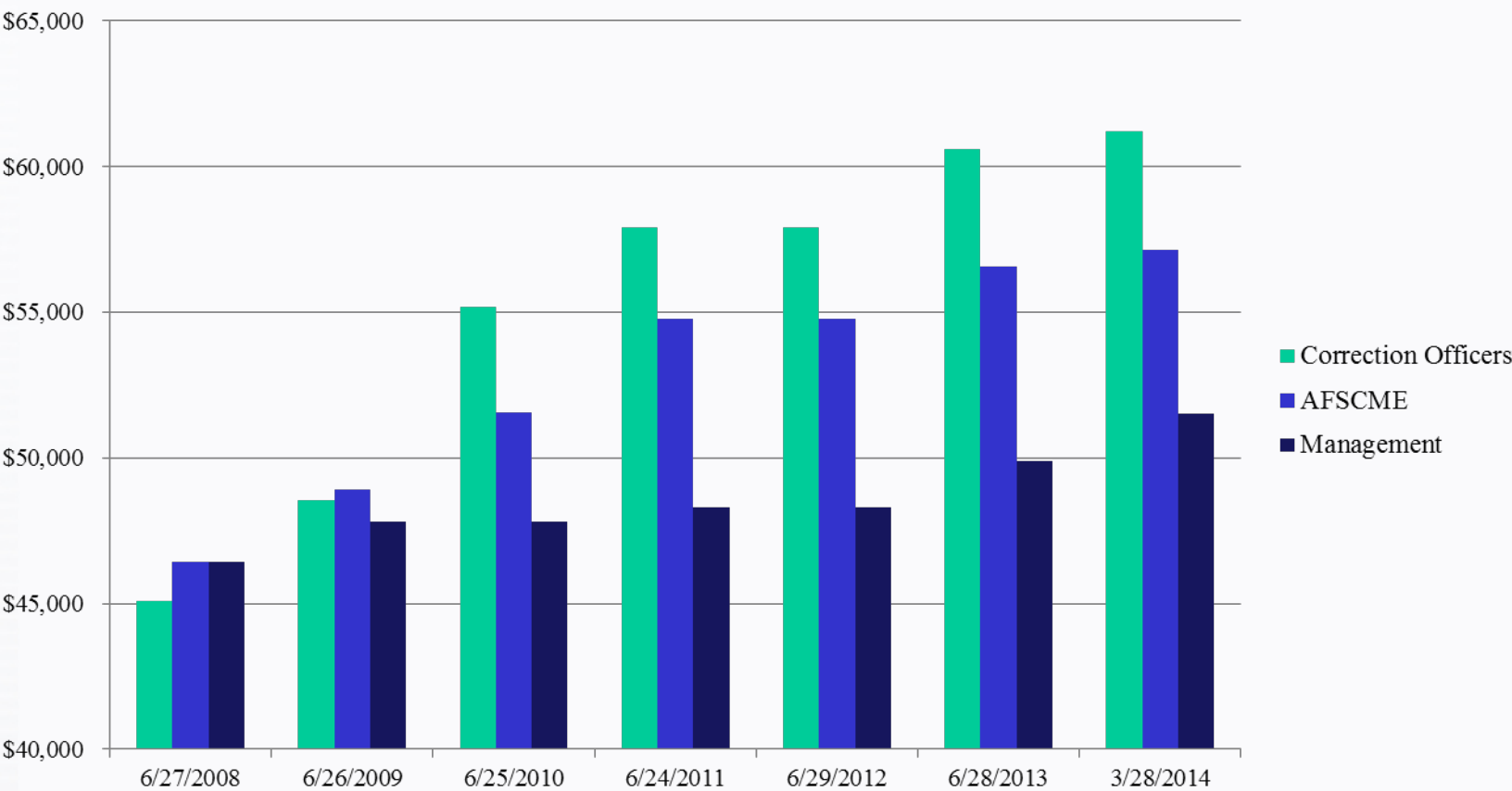
Offender Population and the State Correctional Institutions Budget

Cost Growth for Average-Salaried Correctional Officer

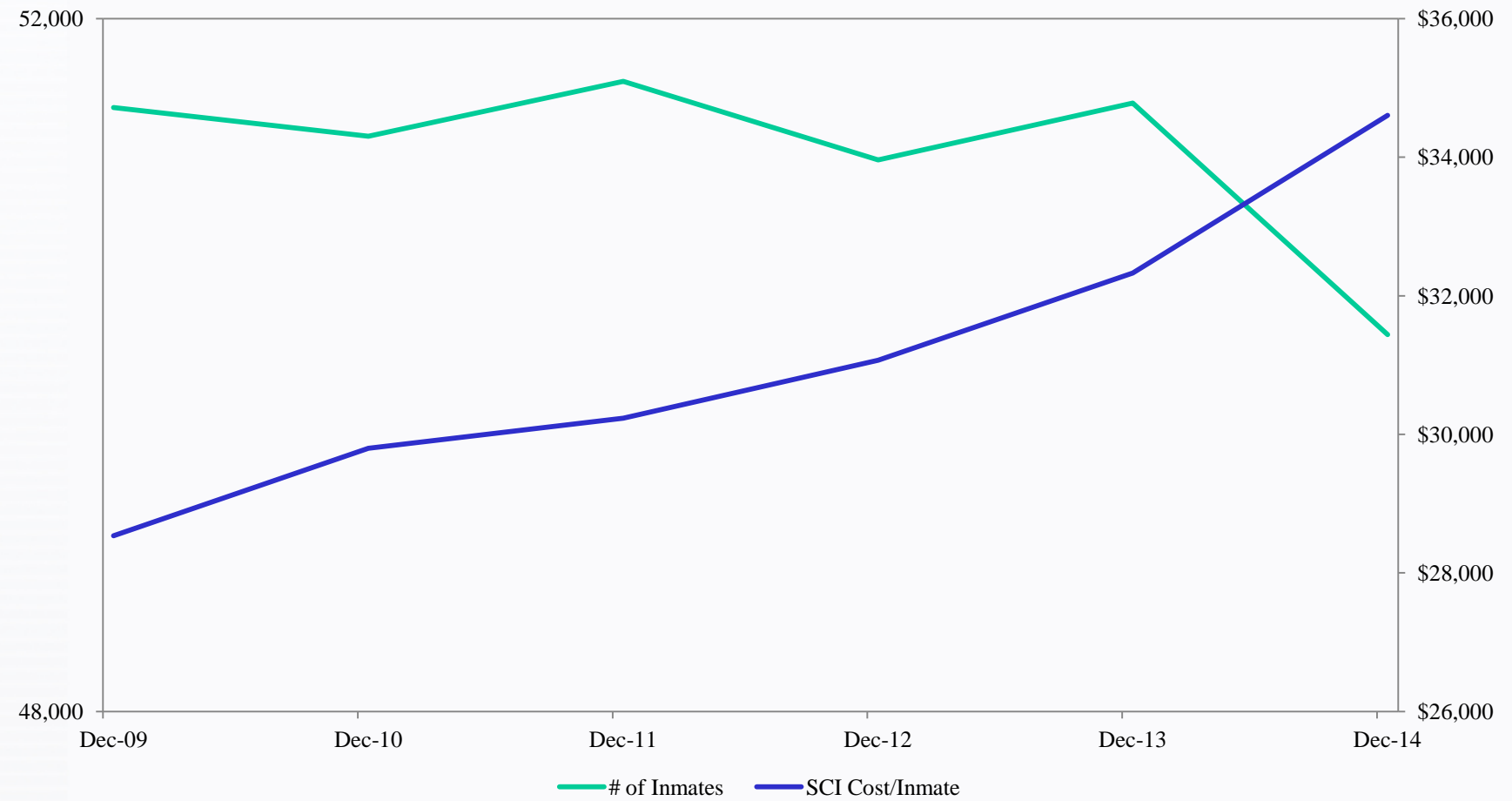
	(Dollars in Thousands)		Year-over-Year Change	
	<u>2013-14</u>	<u>2014-15</u>	\$	%
Personnel Costs:				
Salary	\$54,500	\$54,500	\$ -	0.0%
Benefits -				
Active Health (PEBTF)	\$11,050	\$11,830	\$780	7.1%
Retiree Health	7,930	8,684	754	9.5%
Pension	10,366	13,020	2,654	25.6%
Other	<u>6,702</u>	<u>7,346</u>	<u>645</u>	<u>9.6%</u>
Benefits Subtotal	\$36,042	\$40,880	4,839	13.4%
Total Personnel Costs	\$90,548	\$95,380	\$ 4,832	5.3%
Benefits as a percent of salary	66.1%	75.0%		8.9 %

Salary Growth Comparison

This chart shows the average yearly growth in salary of the average paid Correctional Officer, AFSCME Member, and Management employee from June 2008 until April 2014.



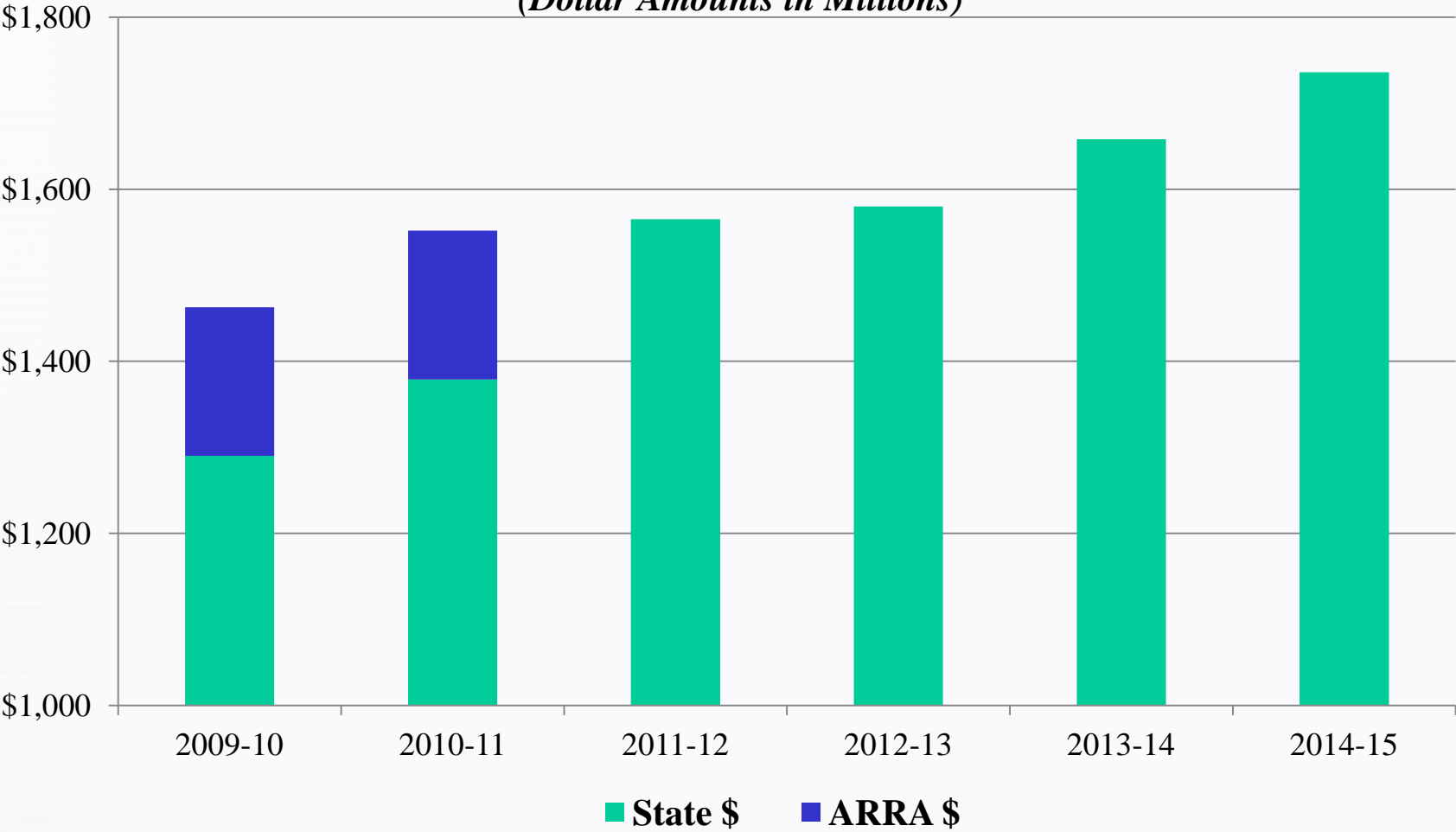
Inmate Population and SCI Cost per Inmate



Inmates

Growth in State Correctional Institutions Funding

(Dollar Amounts in Millions)

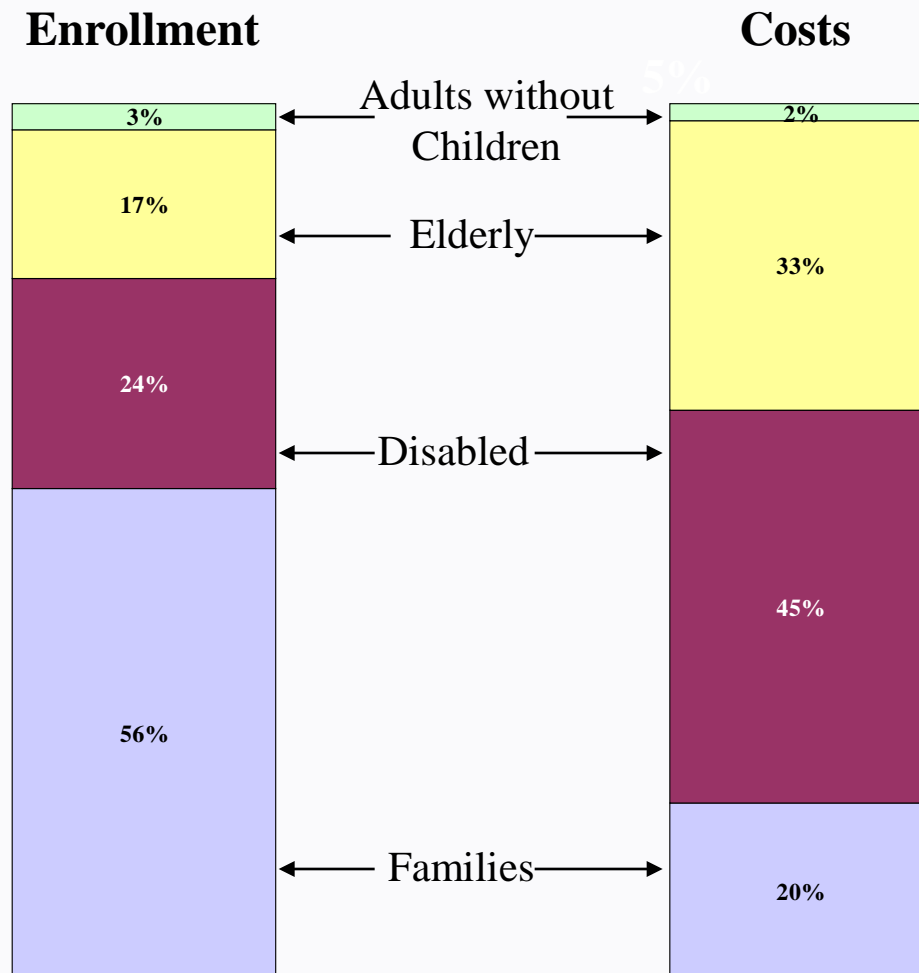


Medical Assistance in Pennsylvania

- Provides medical care for low-income individuals
 - Children, pregnant women, the elderly and people with disabilities
 - Currently serves more than 2.2 million people
- Comprehensive benefits package
 - Inpatient and outpatient services
 - Long-term care
 - Prescription drugs
 - Limited cost sharing
- Provider network includes 82,000 providers
- Total annual expenditures are \$22.3 billion
- State-administered but jointly funded with federal and state funds
- State funding from the General Fund, Lottery Fund and Tobacco Settlement Fund

Seniors and People with Disabilities Use the Greatest Share of Medical Assistance Resources

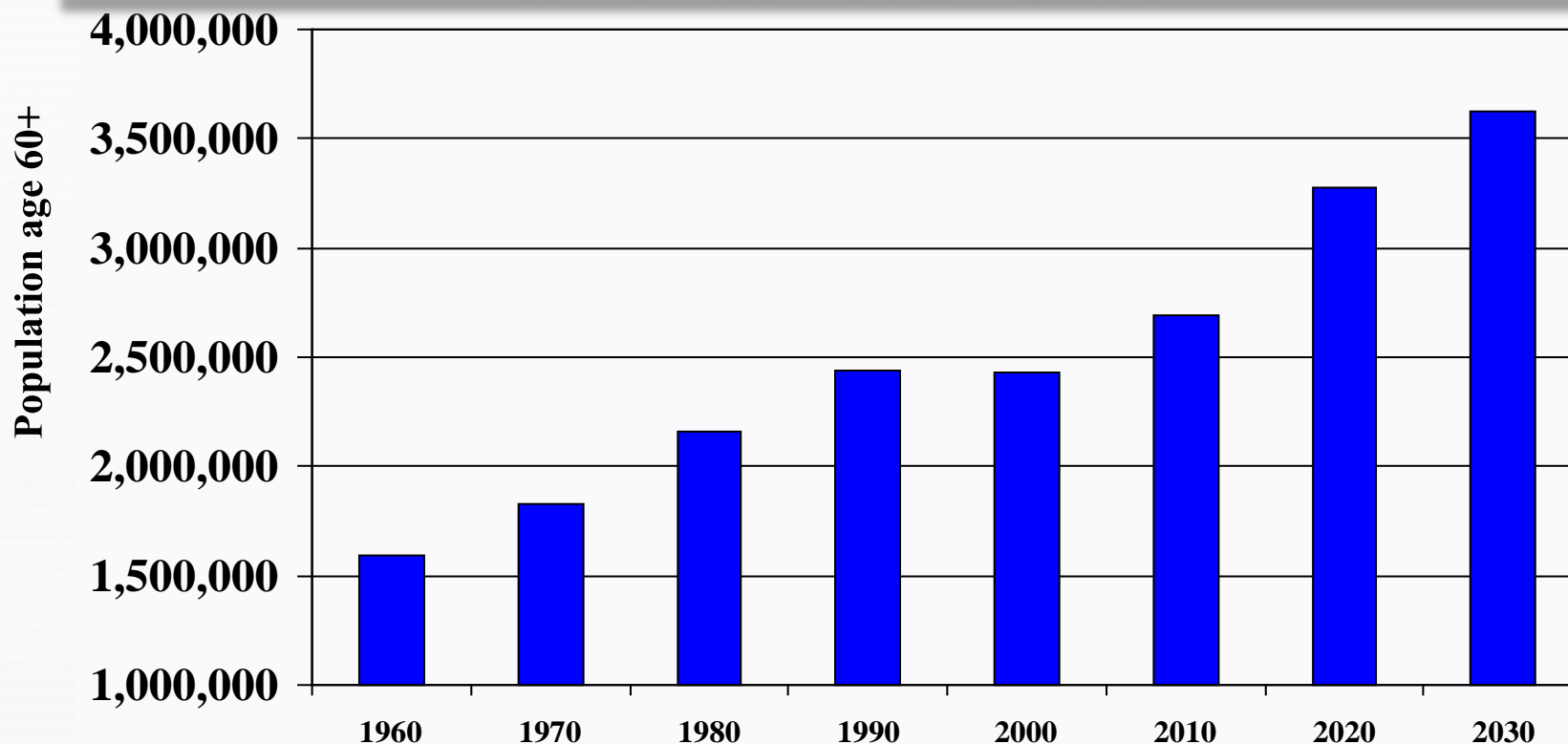
- The elderly and disabled are 41% of Medical Assistance recipients but represent more than 78% of the costs.
- As Pennsylvania's elderly population grows, costs will increase exponentially.
- Because the Medical Assistance program is an entitlement, managing the growth of this program is a challenge given Pennsylvania's demographics.



Expected Growth of the 60+ Population

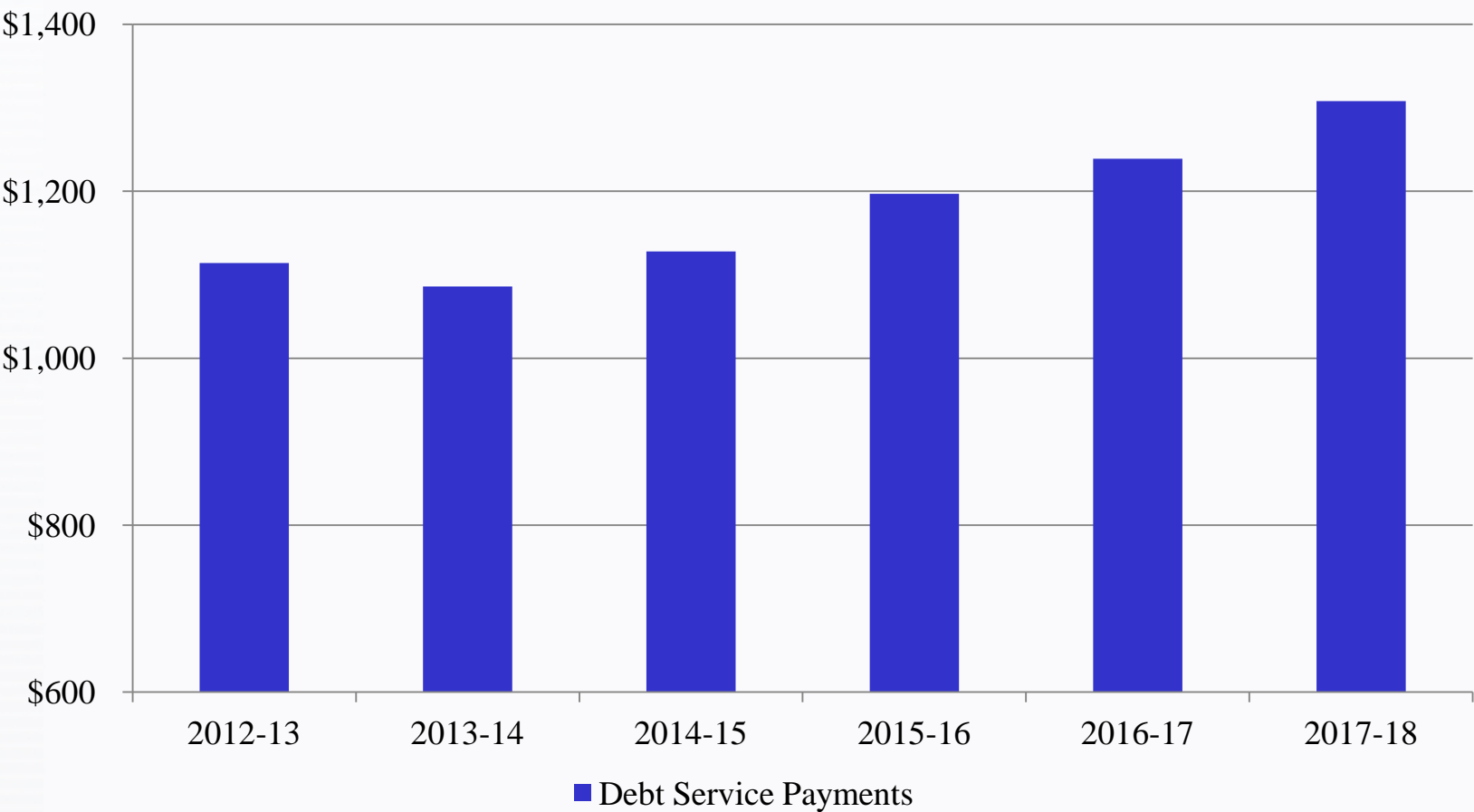
10-year changes from 1960 to 2030

The "Baby Boomer" generation has already begun to turn age 60. By the year 2020, one in every four Pennsylvanians will be age 60 or older. Providing services for the rapidly growing number of seniors will present a major challenge for the commonwealth in the coming years.



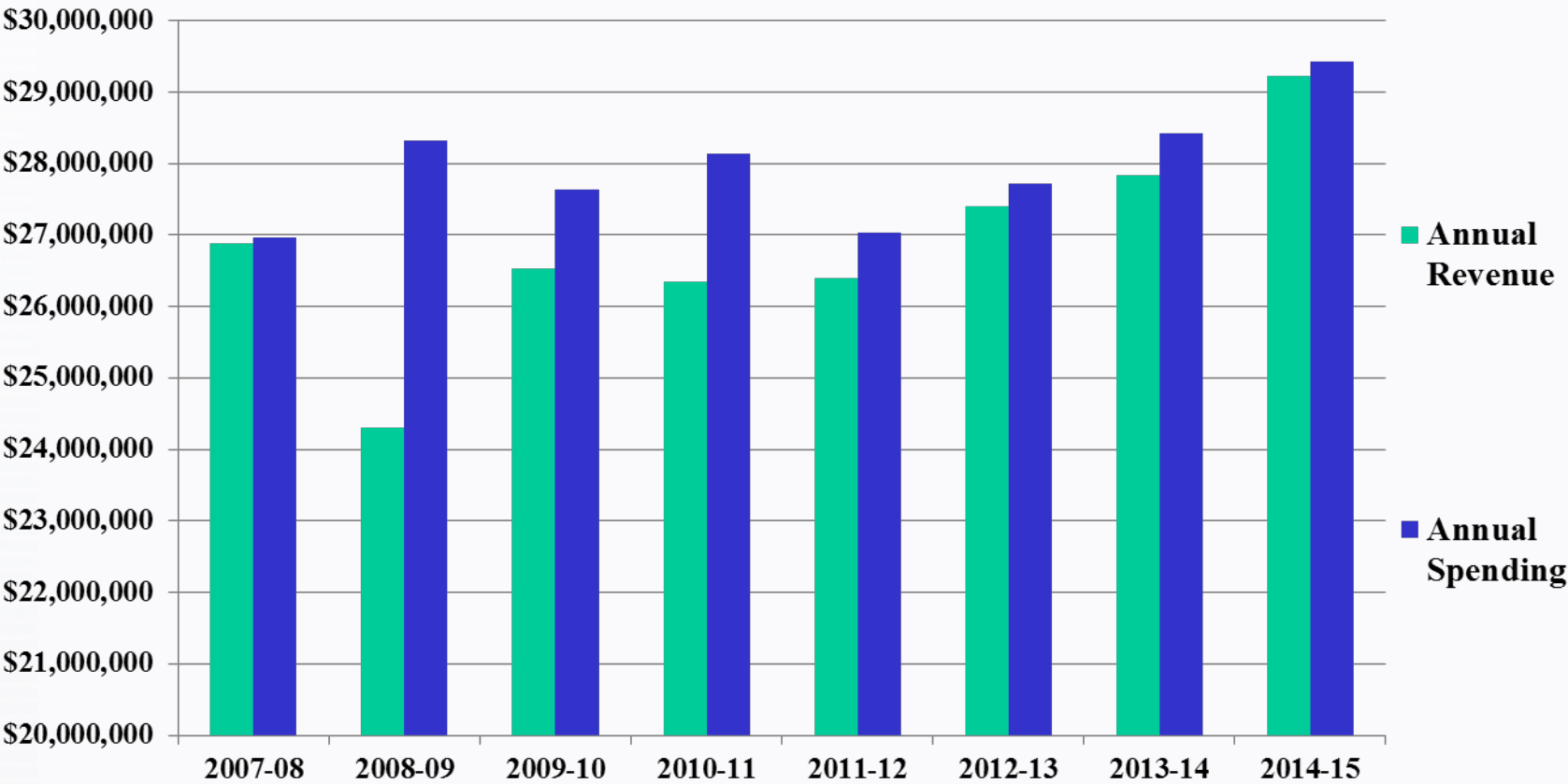
Debt Service Payments are Increasing

(Dollar Amounts in Millions)



General Fund Annual Revenue v. Annual Spending

amounts in thousands



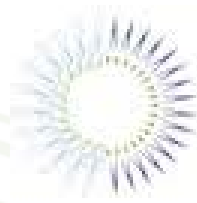
Challenges Ahead

The 2014-15 budget is responsive to the fiscal realities and addresses our challenges head on, yet this budget is only a step in continuing to address the major cost drivers in the budget:

- **Escalating pension obligations,**
- **A continued rise in health care costs, and**
- **Growth in Corrections costs.**

Future budgets will build upon the initial steps this budget takes to enhance Pennsylvania's competitiveness and continue Pennsylvania on its course for prosperity by

- **Making continuing improvements in promoting jobs and job growth and**
- **Investing in students and education.**



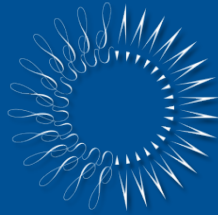
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Gary VanLandingham
Director
Pew-MacArthur Results First Initiative



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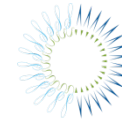


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The Pew-MacArthur Results First Initiative:
INVESTING IN PROGRAMS THAT WORK

May 29, 2014



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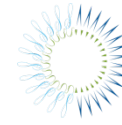
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The Policy Challenge

- Though policymakers want to make strategic choices, the process often relies on inertia and anecdote
- Limited data on:
 - What programs are funded
 - What each costs
 - What programs accomplish
 - How they compare
- **Solution: bring systematic evidence into the system**



Evidence-Based Policymaking

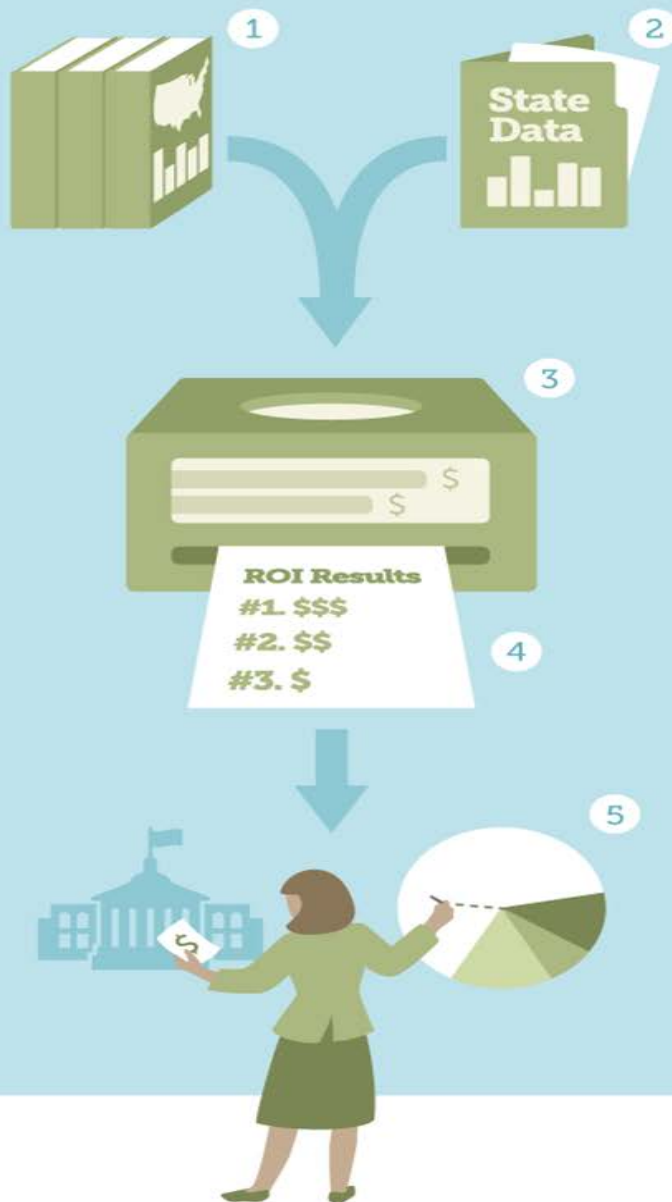


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- Focuses on **“What Works”** – target funds to programs shown to be effective by rigorous research
 - Uses lists of ‘proven’ and ‘promising’ programs identified by clearinghouses
- Outcome-oriented approach
- Asks whether programs’ benefits justify their costs





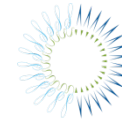
- 1 Results First provides a national database of evidence on program effectiveness.
- 2 The state adds and analyzes their own state-specific population and cost data.
- 3 The model calculates long-term costs and benefits for each program.
- 4 The model ranks programs according to their return on investment.
- 5 Policymakers consider the information during the budget process.

**For further information,
please visit:**

pewstates.org/resultsfirst



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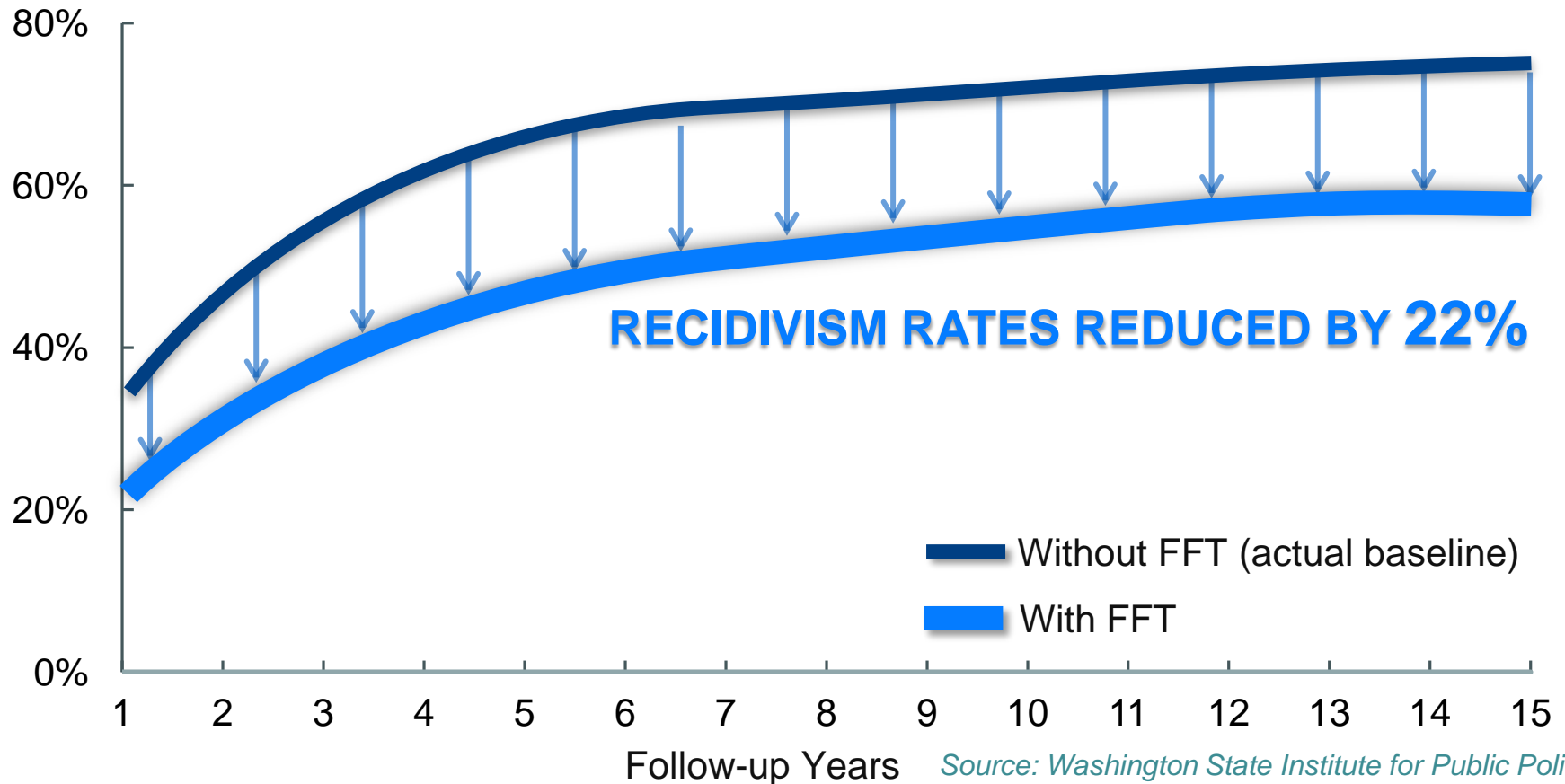


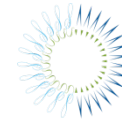
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Impact Analysis of Functional Family Therapy

Recidivism Rate





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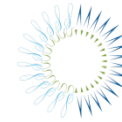
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Cost-Benefit Analysis of Functional Family Therapy

BENEFITS PER FAMILY	WA STATE 2010 DOLLARS	MAIN SOURCE OF BENEFITS
Reduced crime	\$31,745	Lower state & victim costs
Increased high school graduation	\$5,686	Increased earnings
Reduced health care costs	\$307	Lower public costs
Total Benefits Per Family	\$37,739	

\$3,190

Net Present Value	\$34,549	
Benefits Per Dollar of Cost	\$11.86	

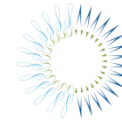


Enables comparisons between program funding options

POLICY/PROGRAM	COST	LONG-TERM BENEFITS	COST/BENEFIT RATIO
Intensive supervision (only)	\$4,140	-\$578	-\$0.14
Mental health court	\$2,935	\$20,424	\$6.96
Community drug treatment	\$1,602	\$17,711	\$11.05
Correctional education in prison	\$1,128	\$21,426	\$19.00
Work release	\$661	\$7,117	\$10.77
Cognitive behavioral therapy	\$412	\$9,695	\$23.55
Community job training & aid	\$135	\$5,501	\$40.76
JUVENILE PROGRAMS			
Functional Family Therapy	\$3,262	\$70,370	\$11.86
Aggression replacement training	\$1,508	\$62,947	\$41.75
Coordination of services	\$395	\$5,501	\$13.94
Scared Straight	\$65	-\$4,949	-\$76.35

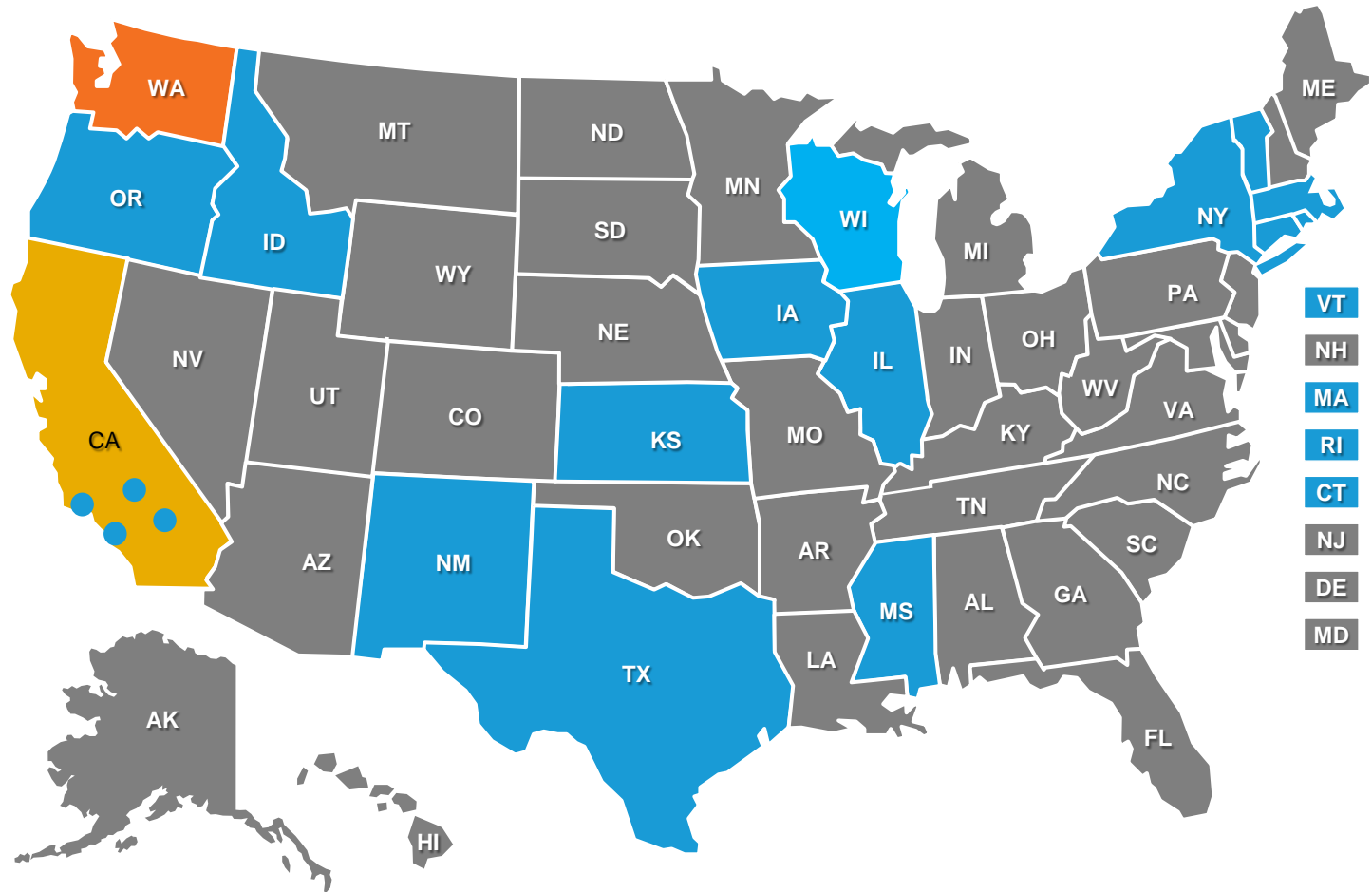
**Washington State 2012 dollars*

Participation in Results First

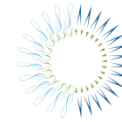


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Key Results First State Activity During 2013 & 2014 (to date)



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6 States

Completed implementation of the model and presented results to legislators and stakeholders

4 States

Enacted Legislation incorporating Results First into their policymaking process

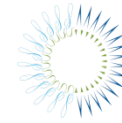
2 States

Used models to analyze legislation

**6
States**

Used their models to target **\$76 million** in funding

New Mexico



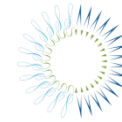
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- Implemented in all available policy areas
- Produced Innovative Reports:
 - “Cost of Doing Nothing”
 - Impact of State Budget Cuts
- Used Results First model to target \$57M for evidence-based programs in early education and criminal justice



Iowa



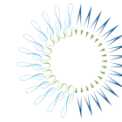
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- Expanding *Cognitive Behavioral Therapy* (CBT) and vocational education programs
- Replacing ineffective domestic violence treatment program with new pilot program
- Expanding to other policy areas, including child welfare



Mississippi



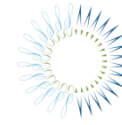
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- **Legislative PEER Committee implementing model**
- **Very strong legislative leadership support**
- **Using approach to re-energize performance budgeting system**
- **Assessing adult criminal justice, juvenile justice, and education programs**



Results First Can Be Used to Analyze a Growing Number of Policy Areas



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K-12 Education

Prevention
Programs

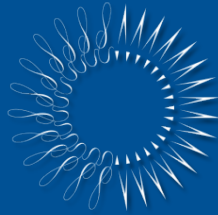
Criminal Justice

Child Welfare

Mental Health

Substance Abuse

Early Education



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John Wetzel
Secretary
PA Department of Corrections



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Grant Oliphant
President
The Pittsburgh Foundation



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Question + Answer



Greater Pittsburgh Nonprofit Partnership
Leaders Forum: From Expense to Investment



Nancy Murray

President

The Arc of Greater Pittsburgh at ACHIEVA



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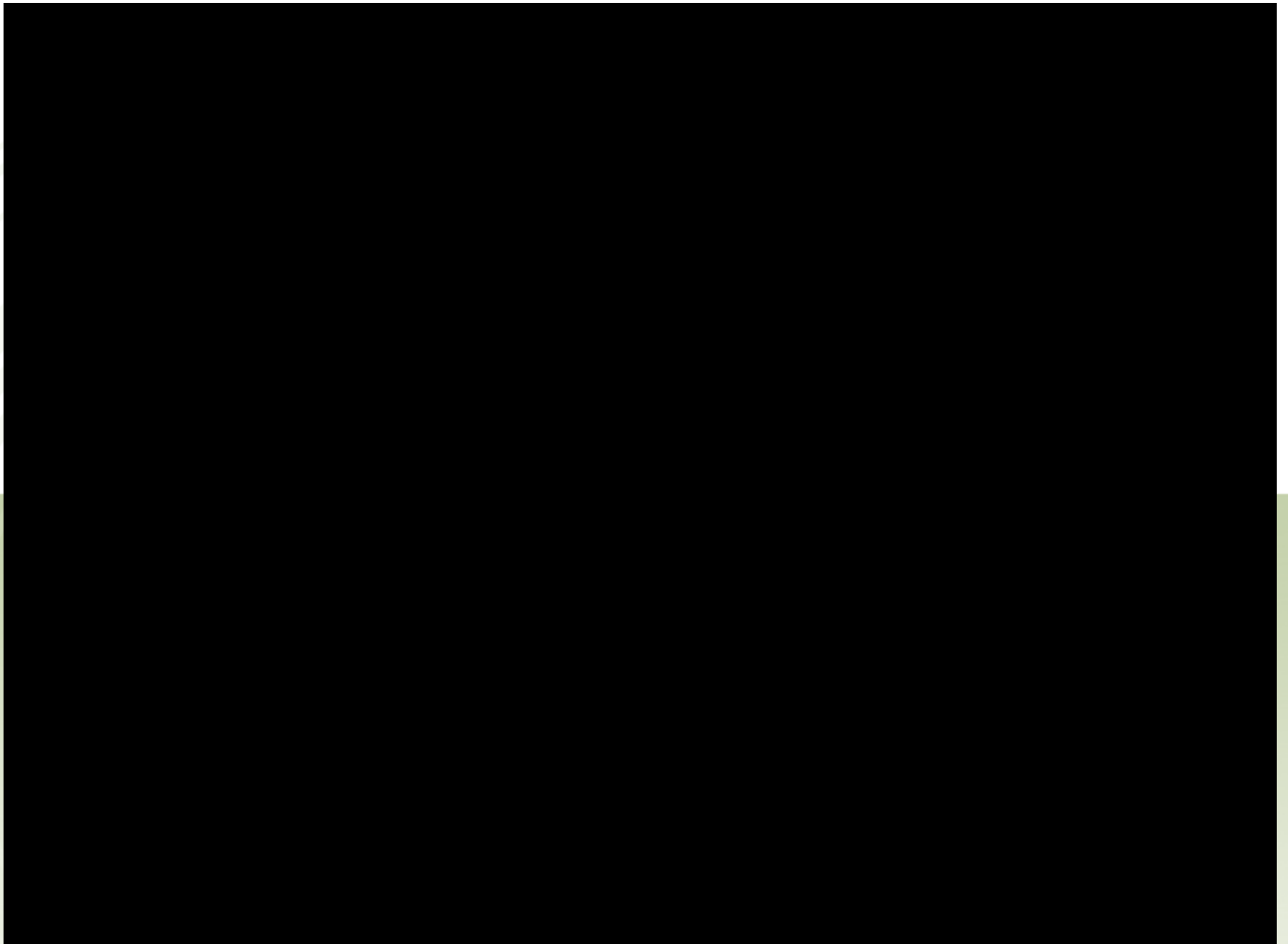


Lisa Schroeder

President
Riverlife



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Lisa Schroeder

President
Riverlife



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Michelle Figlar

Executive Director

Pittsburgh Association for the Education of Young Children



**Greater Pittsburgh Nonprofit Partnership
Leaders Forum: From Expense to Investment**

Pre-K Math

 All PA
Children

+

Access to
Pre-K



= 28,000
New Jobs

&

\$1.8B
Local Sales



Pre-K is good
for PA business

prekforpa.org/economicimpact

**PRE-K
FOR PA**

READY TO SUCCEED

AMERICA'S BEST INVESTMENT Early Childhood Development

Investing in quality programs for at-risk children produces great returns for all Americans.

The return on investment in early childhood development:

Compared to:

 **7-10%**

 **Dow Jones Industrial Average**
over the last 40 years:

6.77% annual return

 **S&P 500 Index**
over the last 40 years:

6.56% annual return



A project of **The First Five Years Fund**, Invest In US helps Americans learn how to build a better US through investment in quality early childhood education from birth to age five.



Visit ffyf.org for a full list of references.



Smart investments reduce costly outcomes:

Society gains because participants are:

Adults who didn't attend early childhood programs earn

\$5,500

less each year than peers who did attend

Employment



More likely to be employed and earn a

33%
HIGHER AVERAGE SALARY

Over their lifetime, the 2010 cohort of babies born to teens will collectively cost taxpayers

\$43.7 B

Teen Pregnancy



50% LESS LIKELY
to become teen parents

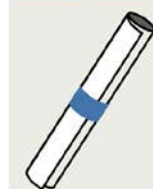
1.1 M high schoolers did not graduate from the class of 2011.

If they had graduated from high school, those students would have collectively earned an extra

\$154 B

in income in their lifetimes

Drop-out



29% MORE LIKELY
to graduate high school

\$65 B

Annual spending on special education

Special Education



50% LESS LIKELY
to require special education

\$158 B

Annual costs due to youth violence

Youth Violence



70% LESS LIKELY
to be arrested for a violent crime before the age of 18

Invest in Young Children, Get a Better US

Public early childhood development initiatives include Head Start, Early Head Start, federally-subsidized child care through the Child Care and Development Block Grant, home visiting, state pre-k and infant and toddler programs.

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Reframing the nonprofit sector as a solution to state budget challenges

May 29, 2014

