

COMMONWEALTH OF PENNSYLVANIA



September 12, 2017

«TITLE» «FIRST» «LAST_NAME»
«ADDRESS_1»
«ADDRESS_2»
«CITYSTATEZIP»

Hand Delivery

Dear «TITLE_2» «LAST_NAME»:

We write to follow-up on our letters of June and July articulating our concerns as to the ability of the Commonwealth's General Fund to meet its expenditure demands without disruption. Please be advised that without additional revenue, the balance in the General Fund is projected to fall below zero this Friday, September 15th. Since the General Fund cannot be negative, this would risk the delay or non-payment of \$860 million in scheduled expenditures. To our knowledge, this would be the first time the Commonwealth would miss a payment as a consequence of insufficient funds in the General Fund.

Attached for your consideration are the latest General Fund balance projections for fiscal year 2017-18. The projections reflect two important factors that have resulted in an artificially inflated fund balance – (1) the transfer of \$700 million from the Motor License Fund to the General Fund (\$241 million of which is to be repaid by February 28, 2018); and (2) the non-enactment of approximately \$647 million in appropriations to the state-related and state-aided universities. As illustrated by the attached chart, in spite of these two measures, the General Fund will continue to struggle, barely posting balances above zero for much of late October through March.

The Commonwealth's financial challenges have resulted in Standard & Poor's placing Pennsylvania on a negative credit watch. On five occasions since 2012, the rating agency has either downgraded the Commonwealth's credit or placed it on negative credit watch. Continued disruption to the Commonwealth's finances, in particular its inability to timely pay obligations, risks an additional credit downgrade.

Unfortunately, under the current circumstances and without the prospect of additional revenue intended to bring the Commonwealth's expenditures and revenues into balance, we are disinclined to support additional lending to the General Fund. As public officials responsible for the careful management of public debt and the prudent investment of public funds, we are compelled to consider the consequences of continuing to borrow money to support an unbalanced budget. Allowing the funding needs of the General Fund to remain unresolved by authorizing earlier, larger and longer borrowing creates an economic "moral hazard" that

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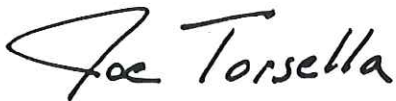
effectively increases the long-term risks to the Commonwealth's finances. Without a responsible revenue package, the Commonwealth's cash flow imbalance will only get worse.

Treasury's line of credit from its Short Term Investment Pool began as a cost-effective alternative to public market Tax Anticipation Notes. As the Commonwealth's cash shortfalls grew in duration and amount over the past three years, the use of Treasury's line of credit has evolved well beyond its original intent. Treasury's Short Term Investment Pool is now seen as a funding source for general government operations whenever the General Fund has an insufficient balance, during most of the fiscal year. This is the appropriate role of the Commonwealth's Rainy Day Fund, not for Treasury's Short Term Investment Pool.

The cycle of earlier, more frequent and larger General Fund balance shortfalls which cause substantial disruption to the Commonwealth's finances simply cannot responsibly continue. Accordingly, we urgently request your immediate attention to completing the legislative work of enacting a responsible revenue package to bring the budget into balance before September 15 to avoid fiscal disruption to the Commonwealth.

We remain available to provide such information as you may require.

Sincerely,



Joseph M. Torsella
State Treasurer



Eugene A. DePasquale
Auditor General

2017-2018 GENERAL FUND BALANCE PROJECTIONS

Assumptions:

- (1) Reflects transfer of \$700 million from Motor License Fund
- (2) Does not include Non-Preferred expenditures

