

Commonwealth of Pennsylvania
2008-09 Budget Briefing
February 5, 2008

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Governor

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www.pa.gov

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2008-09 Budget Highlights

Major Initiatives in the 2008-09 Budget

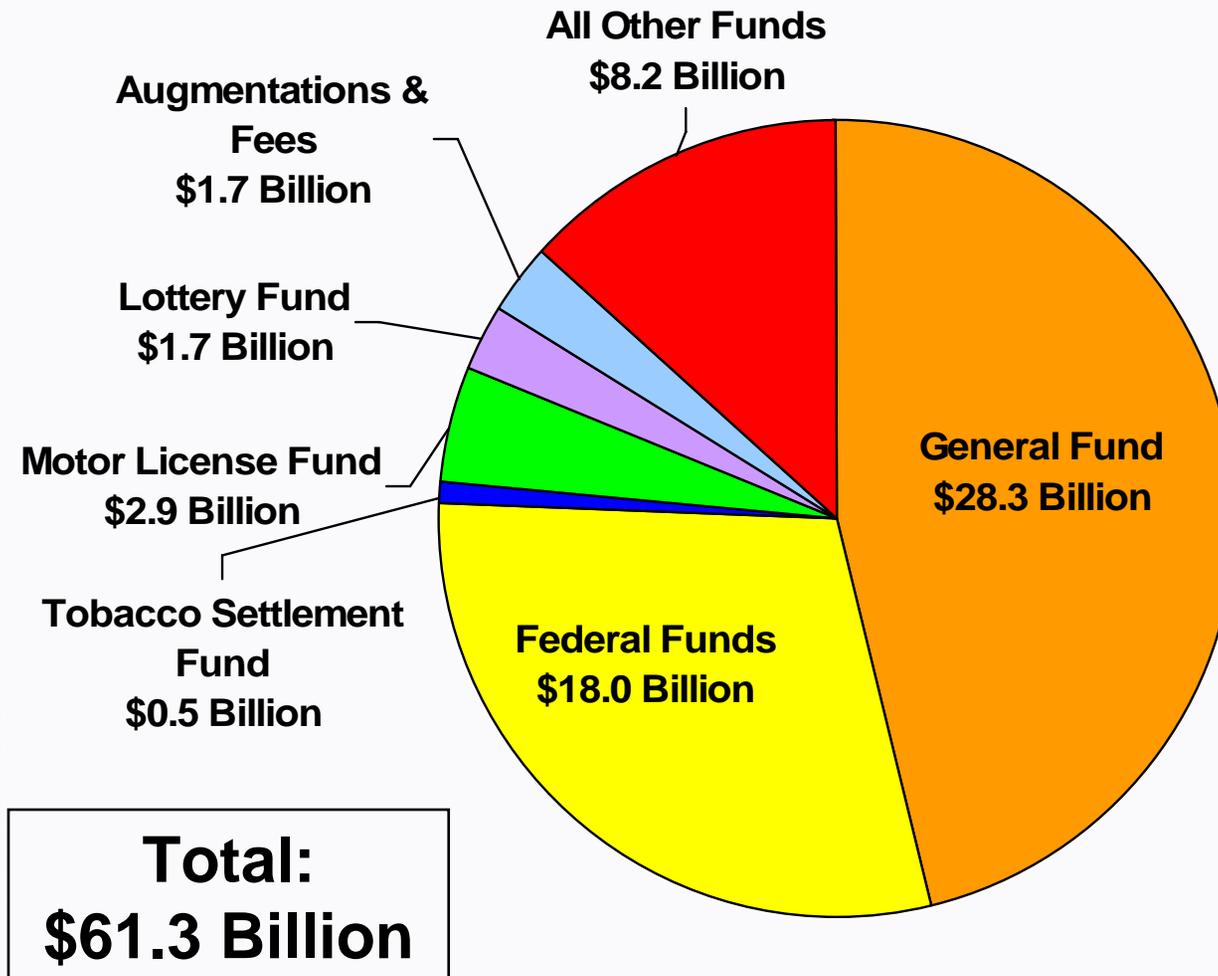
- Implement the **Protecting Our Progress** economic stimulus plan
- Reduce **property taxes**
- Make needed investments in **education**
- Implement **Prescription for Pennsylvania**
- Achieve greater **energy independence**
- Make Pennsylvania a strong **economic competitor**
- Rebuild Pennsylvania's **infrastructure**
- Maintain the **safety net**
- **Move people off welfare** into the labor force
- Manage and **reduce the growing prison population**
- Protect our **environment**

2008-09 Budget Highlights

The 2008-09 budget provides more than \$850 million in property tax relief for Pennsylvania homeowners, invests in our children, promotes job creation, expands health care for the uninsured and preserves the social safety net that protects the elderly, people with disabilities and other Pennsylvanians in need.

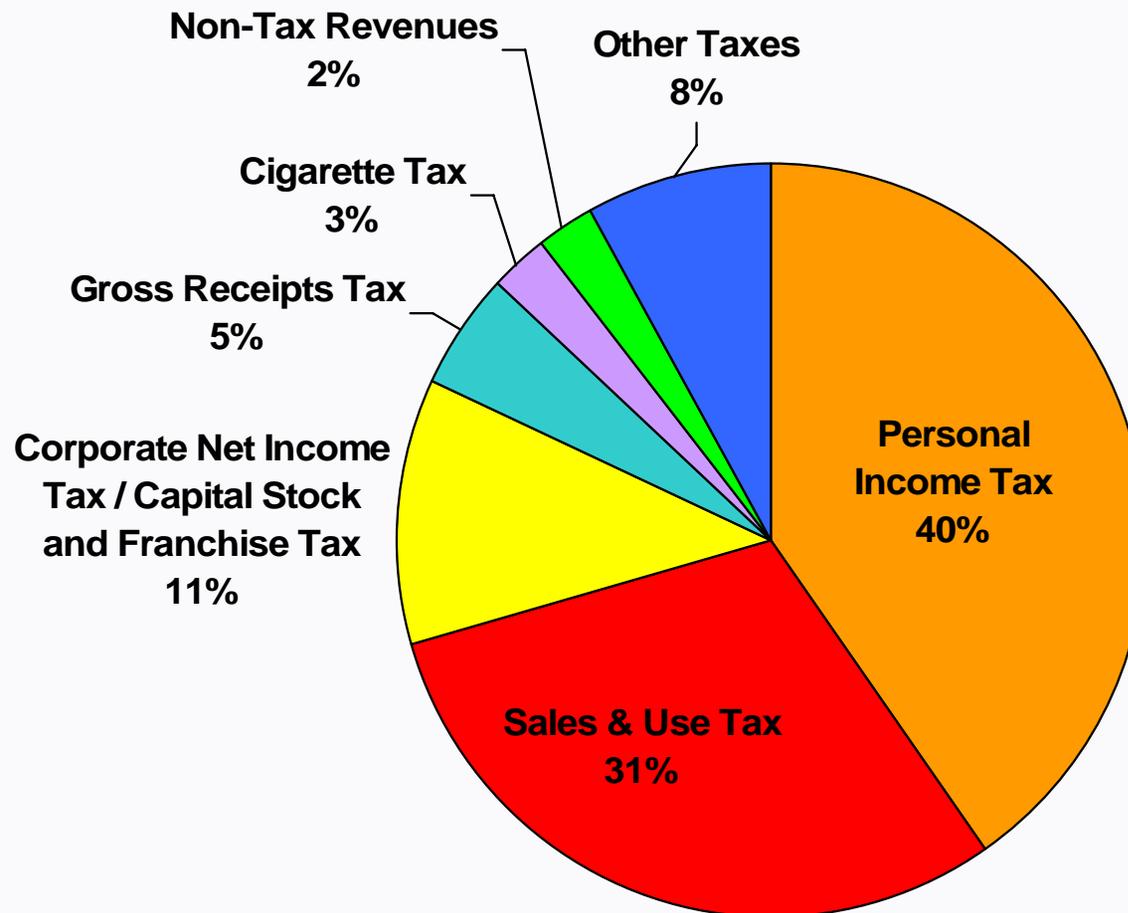
- The budget proposes an economic stimulus package – **Protecting our Progress** – that includes \$130 million for immediate tax rebates to more than 475,000 working families. The rebates will be funded by short-term borrowing from the commonwealth’s Rainy Day Fund, which will be replenished at the end of the current 2007-08 fiscal year.
- The budget proposes the investment of more than \$260 million in 2008-09 as the first year of a multi-year plan to rebuild Pennsylvania’s infrastructure. The **Rebuilding Pennsylvania** infrastructure initiative will invest in bridges, rail freight lines, small airports, high-hazard dams and flood-related projects.
- The 2008-09 General Fund budget is \$28.3 billion, an increase of **\$1.1 billion**, or **4.2 percent**, over 2007-08.
- In the budget, \$476 million, or more than 40 percent, of the \$1.1 billion increase in General Fund expenditures is for **Education**.
- The 2008-09 General Fund budget reduces spending by 2.1 percent in all areas other than **Education, Public Welfare, Corrections and Probation and Parole**, while improving many vital state-supported services.
- The 2008-09 budget continues to re-invest savings realized through innovation and increased efficiency. By eliminating waste and improving government operations, the commonwealth will achieve **\$1.2 billion in annual recurring savings** from the time Governor Rendell took office through the end of the 2007-08 fiscal year.

2008-09 Total Operating Budget



The total 2008-09 operating budget, including all commonwealth funds, is \$61.3 billion. The General Fund represents 46 percent of this amount.

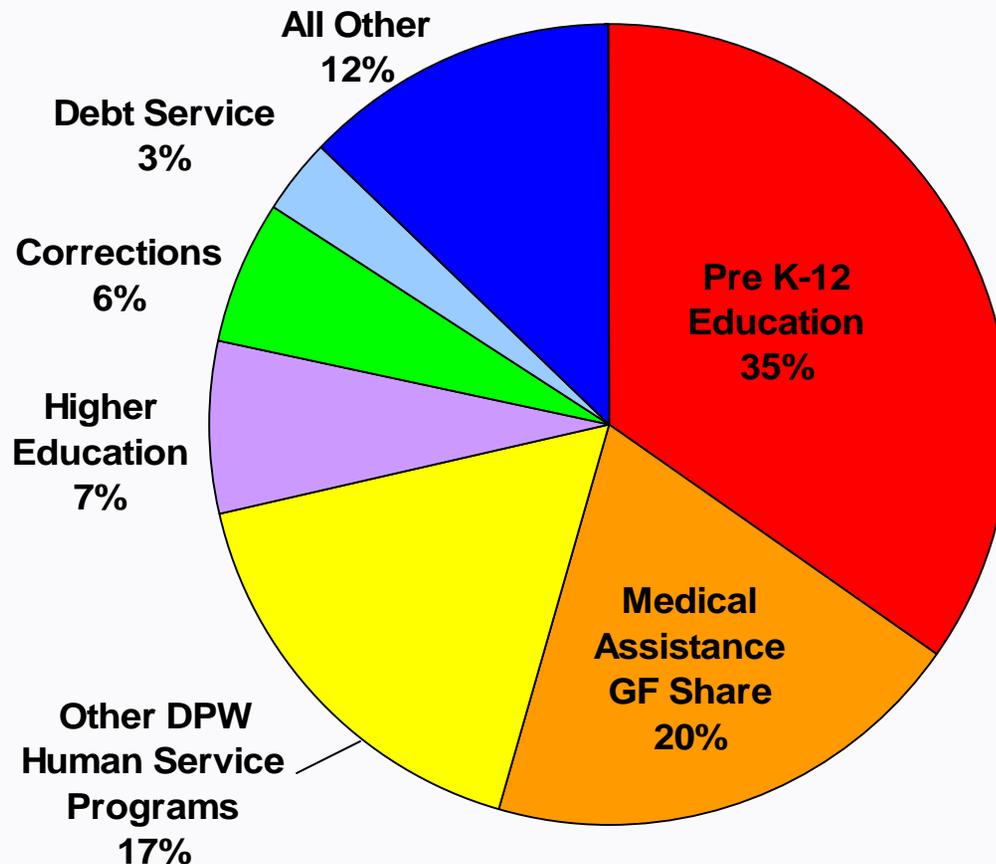
2008-09 General Fund Revenue Sources



More than two-thirds (71 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales & Use Tax.

2008-09 General Fund Expenditures

The 2008-09 General Fund budget is \$28.3 billion, an increase of \$1.1 billion, or 4.2 percent, over 2007-08.



Spending on Education, Medical Assistance, other Department of Public Welfare programs, Corrections and Debt Service comprises 88 percent of total General Fund expenditures.

**Total GF Expenditures:
\$28.3 Billion**

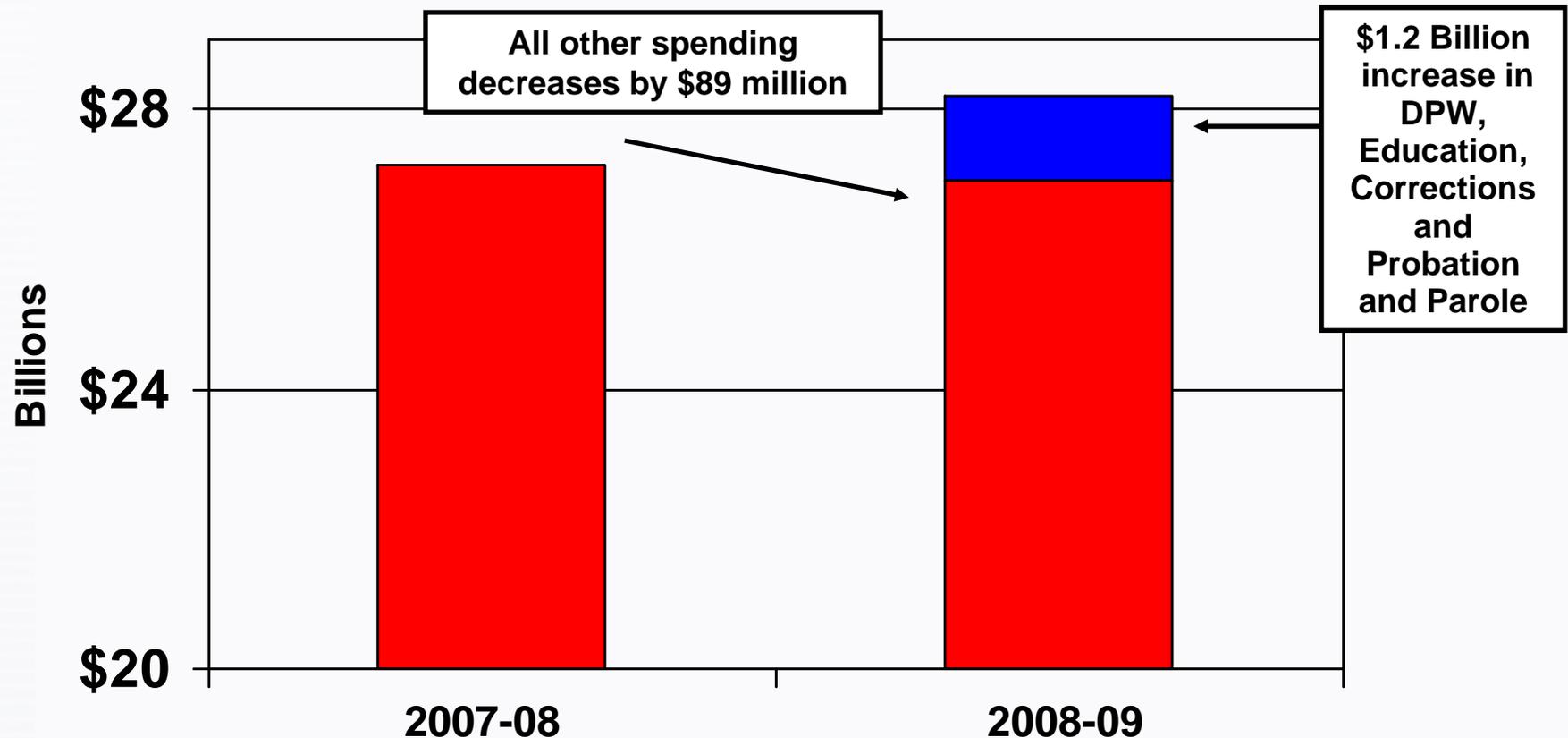
2008-09 General Fund Financial Statement

Dollars in Millions

	<u>2006-07</u> Actual	<u>2007-08</u> Available	<u>2008-09</u> Budget
Beginning Balance	\$ 514	\$ 531	\$ 400
Adjustment to Beginning Balance	8	. . . . .	. . . . .
Transfer from Budget Stabilization Reserve Fund . . . . .	. . . . .	130	. . . . .
Protecting Our Progress Tax Rebates . . . . .	. . . . .	- 130	. . . . .
Receipts	\$ 26,399	\$ 27,118	\$ 27,940
Prior Year Lapses	85	80	. . . . .
Funds Available	<u>\$ 27,006</u>	<u>\$ 27,729</u>	<u>\$ 28,340</u>
Expenditures	\$ - 26,298	\$ - 27,175	\$ - 28,337
Supplemental Appropriations . . . . .	. . . . .	- 31	. . . . .
Current Year Lapses . . . . .	. . . . .	10	. . . . .
Preliminary Balance	<u>\$ 708</u>	<u>\$ 533</u>	<u>\$ 3</u>
Transfer to Rainy Day Fund	- 177	- 133	- 1
Ending Balance	<u><u>\$ 531</u></u>	<u><u>\$ 400</u></u>	<u><u>\$ 2</u></u>

Growth in 2008-09 Expenditures

The 2008-09 budget increases spending on Education, Department of Public Welfare, Corrections and Probation and Parole by \$1.2 billion from 2007-08. The remainder of the General Fund budget decreases by \$89 million or 2.1 percent.



2008-09 General Fund Expenditures

The 2008-09 General Fund budget reduces spending by 2.1 percent in all areas other than Education, Public Welfare, Corrections and Probation and Parole, while improving many vital state-supported services.

(dollars in millions)

	<u>2007-08</u>	<u>2008-09</u>	<u>Difference</u>
PreK-12 Education	\$ 9,375	\$ 9,845	\$ 470
Higher Education and Libraries*	2,151	2,157	6
Medical Assistance.	4,307	4,564	257
DPW – Other Human Services.	5,361	5,772	411
Corrections/Probation and Parole.	1,710	1,786	76
All Other.	4,302	4,213	-89
Total.	<u>\$ 27,206</u>	<u>\$ 28,337</u>	<u>\$ 1,131</u>

* 2008-09 Higher Education and Libraries expenditures do not include \$8.8 million in federal Medicaid funds.

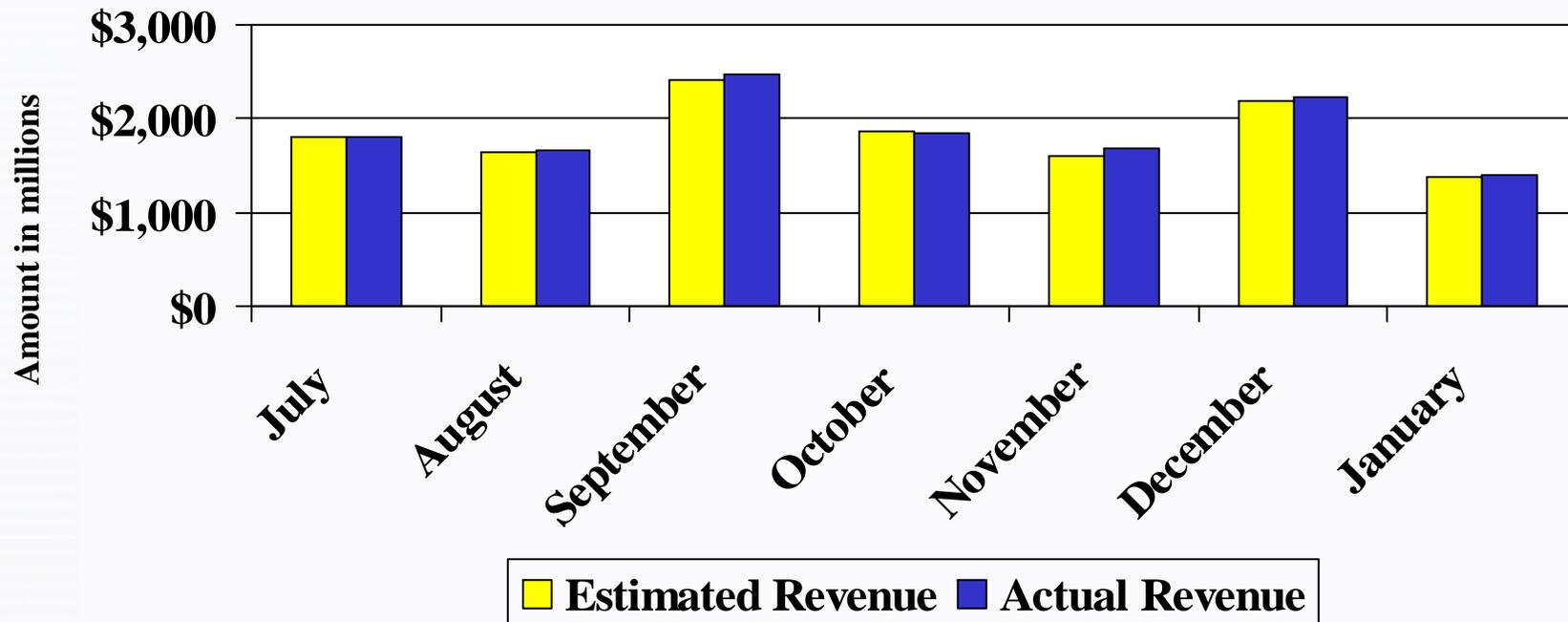
Factors Influencing the 2008-09 Budget

2007-08 General Fund Revenue Collections

General Fund Revenues

Estimated versus Actual Revenue Collections

In January, monthly collections were \$23.7 million higher than projected, causing year-to-date collections to rise to \$199 million or 1.4 percent above estimate.



Year-to-Date General Fund Revenues

Total commonwealth revenues have closely tracked the official estimates (1.4 percent over official estimate through January). Virtually all categories of revenues were slightly ahead of the official estimates, with the exception of Sales Tax – Motor Vehicle Sales, All Other Taxes & Revenues and Treasury Earnings. These revenue shortfalls were offset by higher-than-estimated collections in Business/Corporate Taxes, Sales Tax – Non-Motor Vehicles, and Real Estate Transfer Tax.

(dollars in thousands)

	YTD Est.	YTD Actual	\$ Diff	% Diff
REVENUE SOURCE:				
Sales Tax-Motor Vehicle Sales	\$ 672,300	\$ 652,364	\$ (19,936)	-3.0%
All Other Taxes & Revenues	165,400	115,413	(49,987)	-30.2%
Treasury Earnings	147,100	122,573	(24,527)	-16.7%
Licenses & Fees	117,700	133,422	15,722	13.4%
Escheats	(10,400)	(3,541)	6,859	-66.0%
Inheritance Tax	458,500	463,493	4,993	1.1%
Personal Income Tax	5,573,600	5,647,347	73,747	1.3%
Cigarette Tax	438,100	444,805	6,705	1.5%
Real Estate Transfer Tax	271,200	281,028	9,828	3.6%
Sales Tax – Non-Motor Vehicles	4,443,400	4,492,031	48,631	1.1%
Business/Corporate Taxes	1,561,900	1,689,292	127,392	<u>8.2%</u>
TOTAL	\$13,838,800	\$14,038,227	\$199,427	1.4%

Factors Influencing the 2008-09 Budget

2007-08

General Fund Supplemental Appropriations

Anticipated 2007-08 Supplemental Appropriations

(Amounts in Thousands)

2007-08 Proposed

Department of Education	\$ 15,000
<i>Authority Rentals and Sinking Fund Requirements</i>	
Emergency Management and Homeland Security	\$ 308
<i>General Government Operations</i>	
Department of Public Welfare	\$ 5,327
<i>Mental Health Services (\$2.0 million)</i>	
<i>Cash Grants (-\$13.0 million)</i>	
<i>Supplemental Grants (-\$1.5 million)</i>	
<i>Payment to Federal Government Medicare Part D (\$33.9 million)</i>	
<i>Medical Assistance – Capitation (-\$15 million)</i>	
<i>Behavioral Health Services Transition (\$13 million)</i>	
<i>Child Care Assistance (-\$14 million)</i>	
Judiciary	<u>\$ 10,070</u>
<i>Courts of Common Pleas</i>	
Total Anticipated Supplemental Appropriations	<u><u>\$ 30,705</u></u>

Factors Influencing the 2008-09 Budget

Federal Funding Cuts

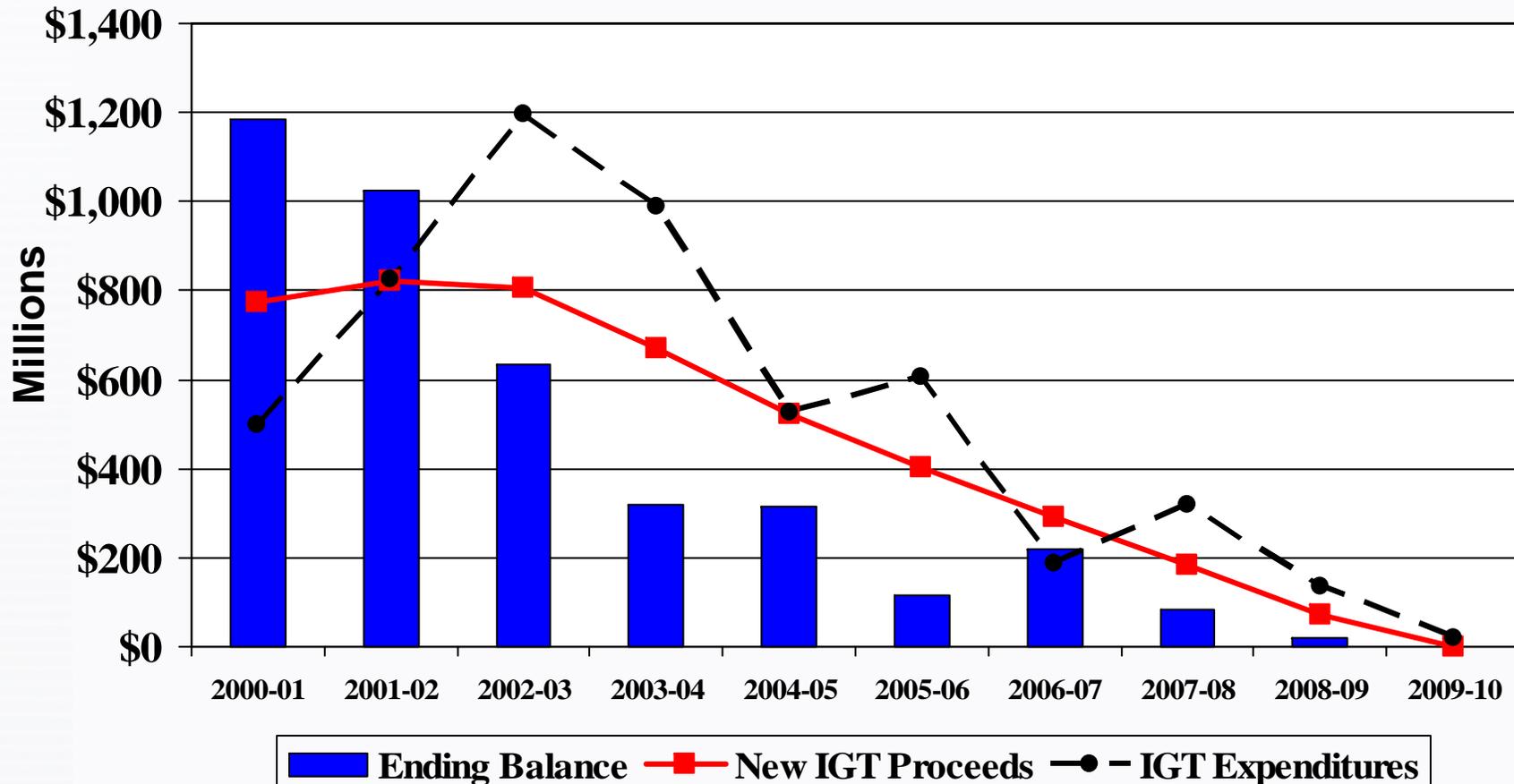
Federal Government Continues to Cut Funding in 2008-09

Pennsylvania faces constant pressure from federal funding cuts. Since 2002-03, the federal government has cut more than \$3 billion in funding for Pennsylvania, forcing the state to make up for federal cuts with state funds. The alternative would have been to make deep cuts in funding for specific human service programs like nursing home care. Reductions in federal funding in 2008-09 include the continuing phase-out of Inter-governmental Transfer Funds and lower levels of funding for education, corrections and child support programs. It is estimated that federal cutbacks will cost the commonwealth an additional \$836.5 million in 2008-09.

Type of Reduced Federal Support/Increased Payment	2002-03 through 2007-08	2008-09 Additional Impact
Reductions in Program Funding	\$ - 47.0	\$ - 1.4
Unfunded/Under-funded Mandates	\$ - 514.6	\$ - 126.8
Payments to Federal Government for Medicare Part D	\$ - 881.1	\$ -374.1
Other Losses/Revenue Reductions	\$ - 1,837.8	\$ - 334.2
Total	\$ - 3,280.5	\$ - 836.5

Utilization of Intergovernmental Transfer Funds

The commonwealth's capacity to use Intergovernmental Transfer (IGT) funds to offset General Fund spending requirements has been significantly diminished as the federal government requires Pennsylvania to phase out new IGT proceeds and the existing IGT reserve balance is depleted.



Factors Influencing the 2008-09 Budget

The Potential for Slowing Economic Growth

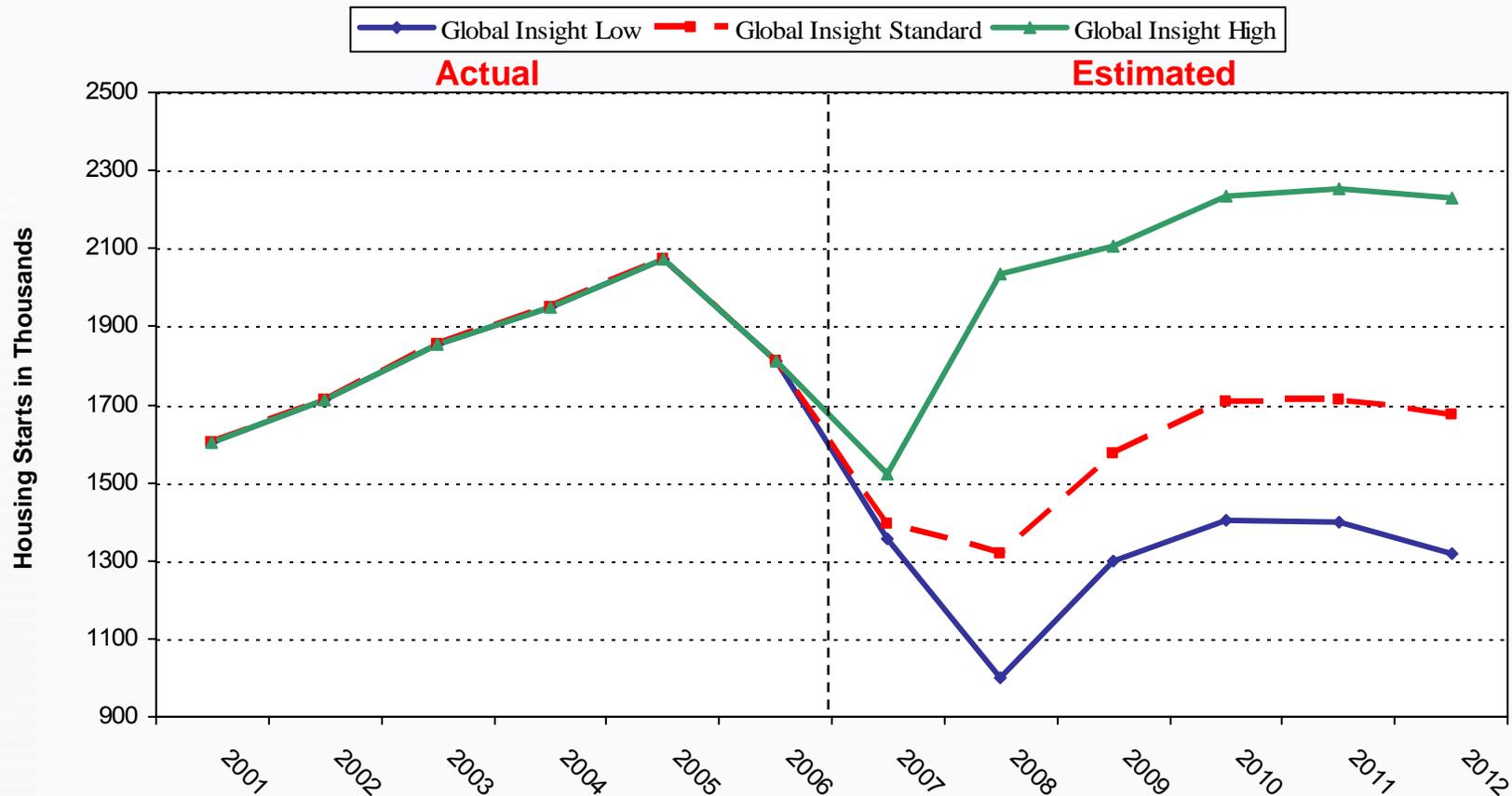
U.S. Housing Market Conditions *Third Quarter 2007*

- In the 2007 third quarter, new-home sales were down 23 percent and existing-home sales were down 14 percent from the same quarter in 2006.
- In the 2007 third quarter, new-home sale prices were lower than prices in both the 2006 third quarter and the 2007 second quarter.
- Inventories of new and existing homes available for sale at the end of the third quarter of 2007 remain at high levels, especially relative to current sales volume
 - *There are enough houses available to last more than 10 months*

Source: U.S. Department of Housing and Urban Development, Office of Policy Development and Research (2007). *U.S. Housing Market Conditions. 3rd Quarter*, November 2007.

U.S. Housing Starts Are Declining

Global Insight, the commonwealth's economic forecasting firm, presents three different U.S. Housing Starts scenarios. The slump in the housing market, as measured by new housing starts, is expected to worsen in 2008. Nationally, new housing starts in 2008 are projected to total less than half the number of new starts in 2005. In this sector of the economy, too there is greatly uncertainty about what will happen next.



Home Sales Slow Down

During the 12-month period ending in March 2007, sales of existing homes in Pennsylvania decreased 8 percent and new home permits fell 29 percent, compared to the same measures from the 12-month period ending in March 2006.

U.S. Home Sales (Units in thousands)

	Third Quarter 2007	Third Quarter 2006	% Change from Third Quarter 2006	Second Quarter 2007	% Change From Second Quarter 2007
New Homes					
New Homes Sold	768	994	-23	855	-10*
For Sale	523	560	-7	541	-3*
Months' Supply	8.3	6.8	+22	8.3	0
Existing Homes					
Existing Homes Sold	5,423	6,287	-14	5,917	-8
For Sale	4,399	3,783	+16	4,368	+1
Months' Supply	10.5	7.3	+44	9.1	+15

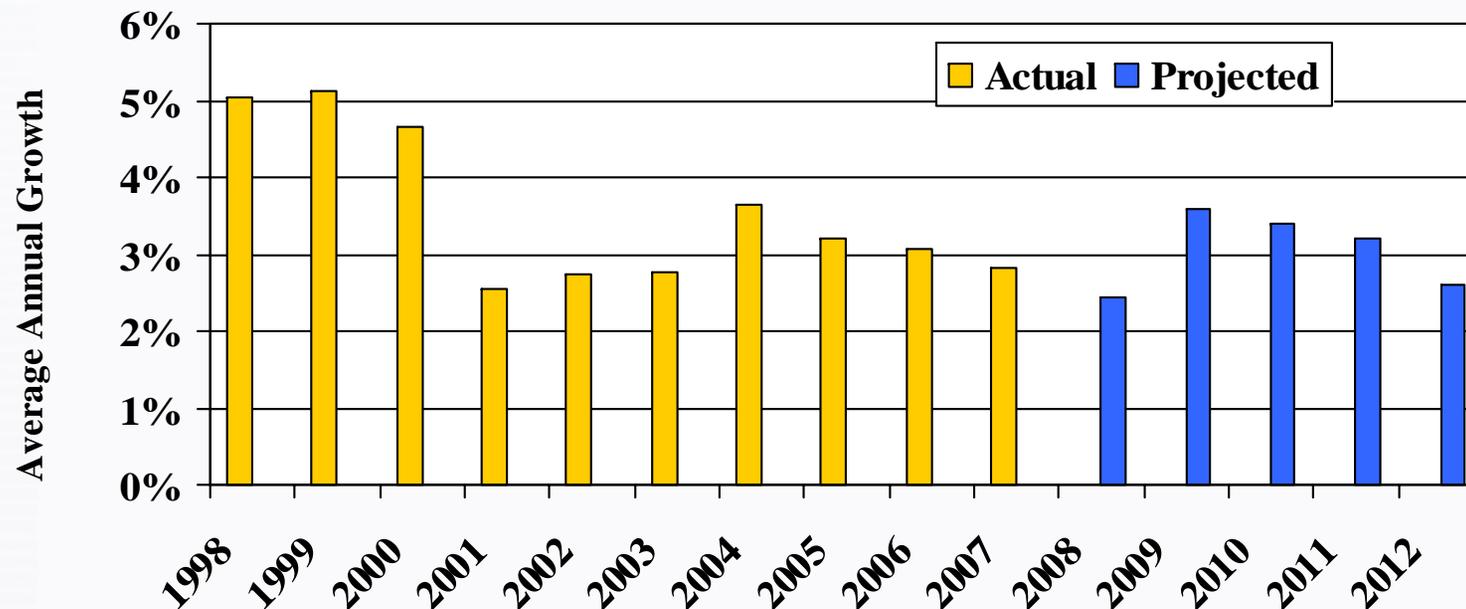
*This change is not statistically significant.

Sources: New Homes – Census Bureau, Department of Commerce; and Office of Policy Development and Research, Department of Housing and Urban Development; Existing Homes – NATIONAL ASSOCIATION OF REALTORS

Personal Consumption is Declining

Personal consumption growth is expected to have peaked in 2004, returning to an average of less than 4 percent for 2008 through 2012. Personal Consumption Expenditures is the component of GDP that includes all consumer spending on durable goods (television sets, washing machines, computers, etc.), non-durable goods (orange juice, bread, T-shirts, etc.) and services (fees for lawyers, doctors, plumbers, etc.). In the United States, personal consumption has remained the driving factor for the economy. It accounts for about two-thirds of the nation's GDP.

U.S. Real Personal Consumption Expenditures



Source: *Global Insight*, January 2008

Dow Jones Industrial Average 1985 - 2008

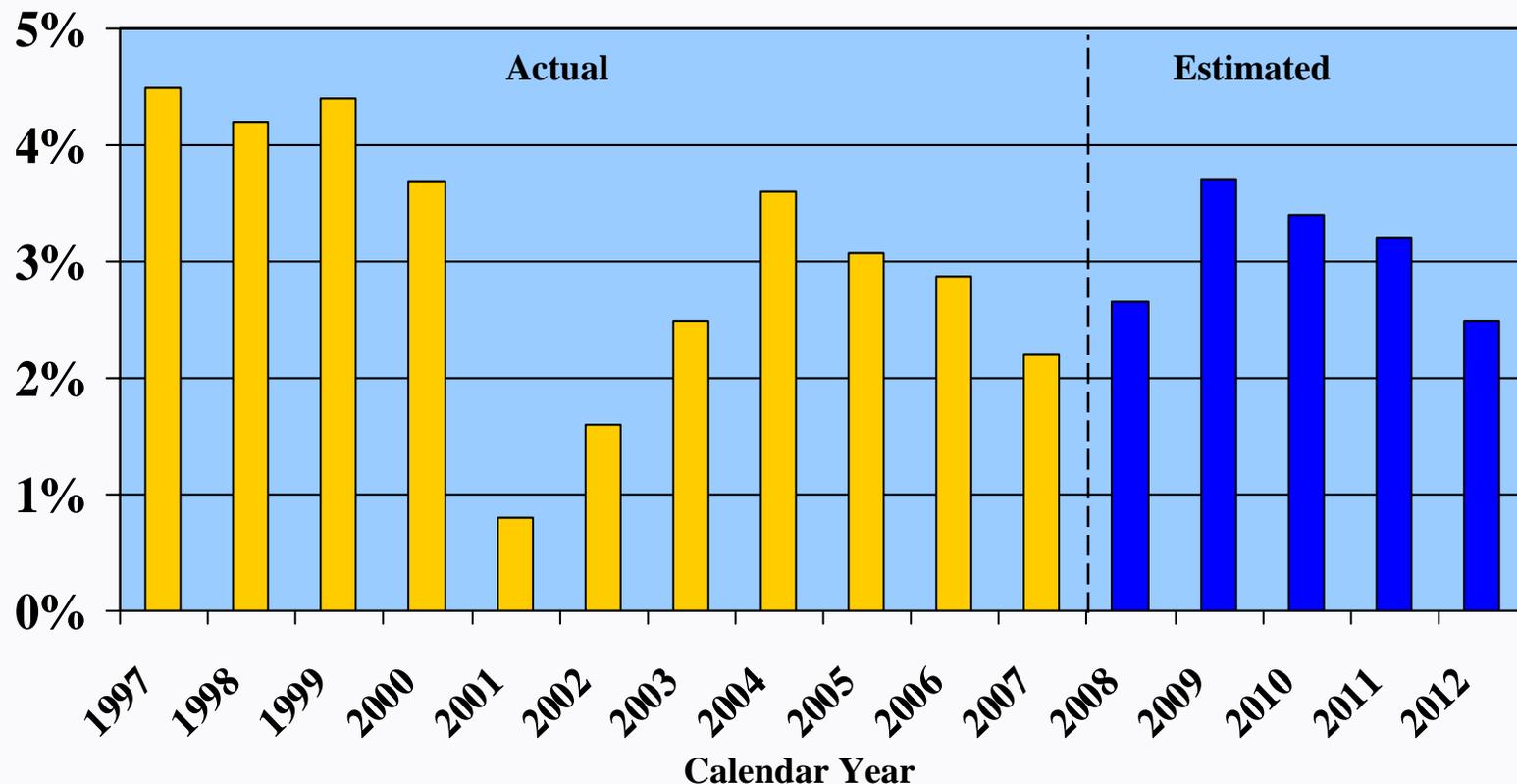
Dow's wild ride

Dow Jones Industrial Average



U.S. Real Gross Domestic Product *Annual Growth*

The impact of a slower housing market and lower consumer spending slowed the rate of growth in GDP to 2.2 percent in 2007, the slowest pace in 5 years. Economic forecasts project a moderate increase in the growth for GDP moving into 2008. An expansion of growth is projected for the second half of 2008 and into 2009.



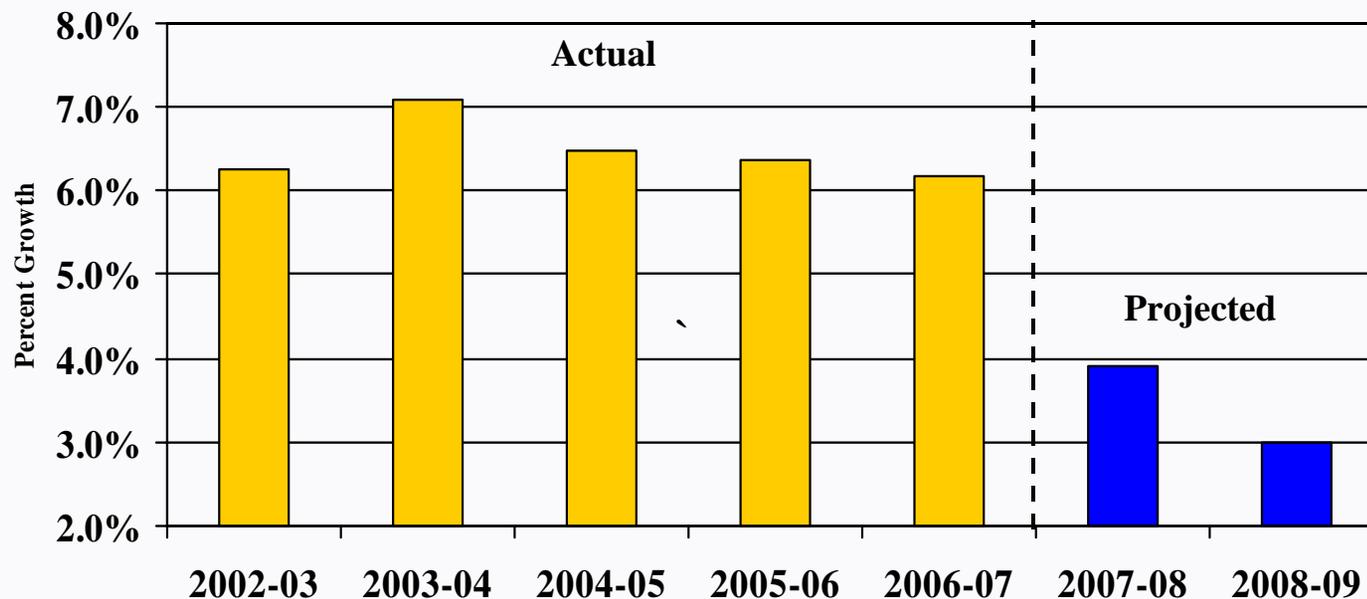
Factors Influencing the 2008-09 Budget

General Fund Revenue Trends

General Fund Revenue Growth *2002-03 through 2008-09 estimated*

This uncertainty in the direction of the national economy has caused Pennsylvania to reduce the projected rate of growth in 2008-09 General Fund revenues to only 3 percent – a reduction of more than 50 percent from the average annual rate of growth the commonwealth experienced between 2002-03 and 2006-07.

General Fund Revenue Growth *Increase from Prior Fiscal Year*



* 2007-08 includes \$320 million that has been transferred to the new Public Transportation Trust Fund

Factors Influencing the 2008-09 Budget

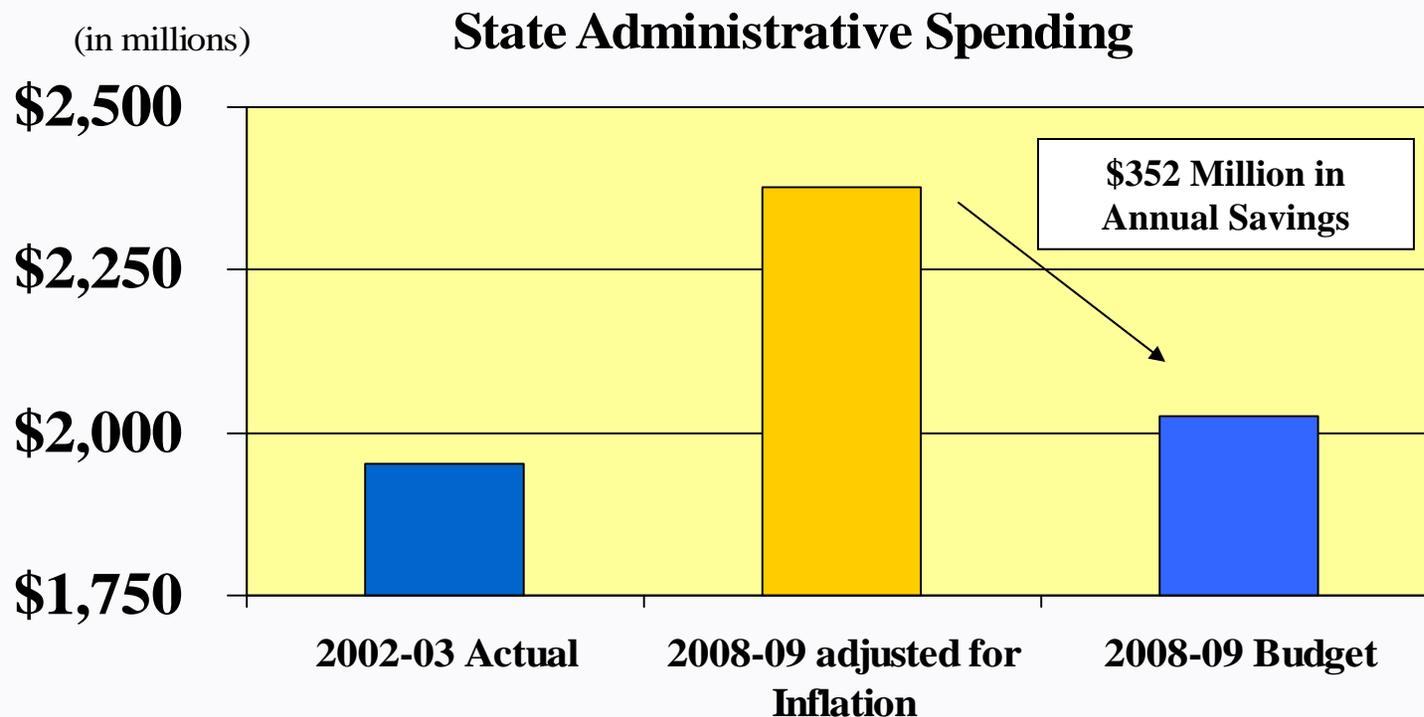
Making Government

Work Smarter

Continuing to Cut the
Cost of Government

Holding the Line on Administrative Spending

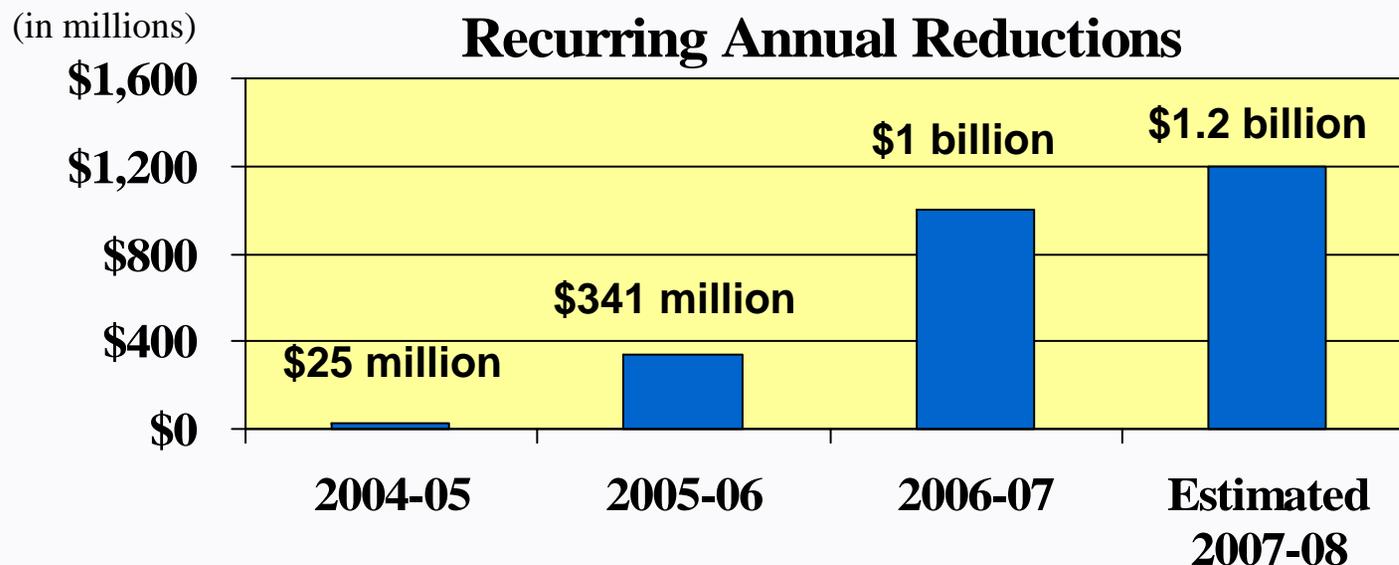
*Initiatives implemented in conjunction with the Office of Management and Productivity have enabled the commonwealth to hold the line on state administrative spending. If state administrative spending had been allowed to grow with the rate of inflation, **the commonwealth would spend \$352 million more next year to operate state government.***



Note: 2008 inflation estimated to be 3 percent

Pennsylvania Expects to Achieve \$1.2 Billion in Annual Cost-Cutting Management & Productivity Improvements

Governor Rendell pledged to cut the cost of government and improve the way the commonwealth works. In five years, by developing new business practices and focusing on innovation and efficiency throughout the government, this administration is expected to reach annual recurring savings of \$1.2 billion by the end of 2007-08.



Examples of Making Government Work Smarter

Because it is the largest state agency, the Department of Public Welfare has been a major focus of the administration's management and productivity efforts. Other areas of focus have been reducing the size of the commonwealth's fleet and improved revenue generation at the Liquor Control Board and the state Lottery.

- ✓ **Implementing a Preferred Drug List**
- ✓ **Strategic Sourcing Initiative**
- ✓ **Using Electronic Payments Instead of Paper Checks**
- ✓ **Eliminating Unused Phone Lines and Consolidating Warehouses**
- ✓ **Using Internet to Better Detect Fraud**
- ✓ **Reducing Fleet Costs**
- ✓ **Controlling Construction Costs with Energy-Efficient Materials**
- ✓ **Revenue Increases from Consumer-Oriented Business Practices at the Liquor Control Board**

2007-08 Unfinished Business

Unfinished Business

Deferred 2007-08 Initiatives

During the July 2007 budget enactment, the General Assembly agreed to postpone discussion on several initiatives the Governor included in his 2007-08 budget proposal. Passage of these initiatives continues to be critical to increasing the safety, health and economic competitiveness of Pennsylvania.

- ✓ Enact the **Energy Independence Strategy** to Reduce Pennsylvania's Dependence on Foreign Fuels and Achieve a Greener Pennsylvania
- ✓ Establish the **Jonas Salk Legacy Fund** to Accelerate Medical Research in Pennsylvania
- ✓ Enact **“Cover All Pennsylvanians”** to Reduce the Number of Uninsured
- ✓ Renew the **MCARE Medical Malpractice Abatement Program**
- ✓ Enact the **2007-08 Capital Projects Authorization Bill**

2008-09 Budget Overview

2008-09 Budget Overview

Protecting Our Progress

Protecting Our Progress

*To ensure that our commonwealth is as insulated as possible from the current turbulence in national economic conditions, Governor Rendell is proposing a short-term stimulus package – **Protecting Our Progress** – that will offer immediate fiscal relief to struggling working families and infuse much-needed capital into public works projects and local business development.*

Key Provisions of Protecting Our Progress:

- ✓ A rebate of up to \$400 per household for the commonwealth's lower-income, working families.
- ✓ Enact a Redevelopment Capital Assistance Bill for \$750 million in projects.
- ✓ Enact the Energy Independence Strategy to put \$850 million to work, employing Pennsylvanians in a promising economic sector.
- ✓ Enact The Jonas Salk Legacy Fund.
- ✓ Expand the Job Creation Tax Credit from \$1,000 to \$3,000 per employee.
- ✓ Reduce the interest rate on commonwealth loans offered through the Small Business First, Machinery and Equipment Loan and Industrial Development programs.
- ✓ Increase funding for the successful Business In Our Sites program by \$100 million.
- ✓ Extend the Keystone Opportunity Zone program.
- ✓ Increase funding for the Infrastructure Development program by \$10 million.
- ✓ Invest more than \$260 million through the Governor's Rebuilding Pennsylvania infrastructure initiative.

Protecting Our Progress

Rebates up to \$400 for Lower-income Households

*Available to Tax Forgiveness Credit
qualifiers on 2007 Tax Returns*

*\$200 per individual (\$400 per couple) for
families with at least one dependent*

*Rebates can be mailed within 60 days of
program enactment*

*Single parent with one child earning up to
\$18,250 annually will qualify for \$200*

Enact a Redevelopment Capital Assistance Bill

*Allow more than \$1.5 billion in projects
ready for development to proceed*

*A \$750 million increase in the RACP
authorization will leverage at least an
additional \$750 million of additional
investment under RACP's 1-for-1 matching
rule*

Ready-to-go projects include:

St. Clair Hospital expansion
(Allegheny County)

Chester Waterfront improvements
(Delaware County)

City of Hermitage business park
(Mercer County)

Protecting Our Progress

Enact the Energy Independence Strategy

Pennsylvania is home to some of the world's leading renewable energy companies and is on track to produce 18 percent of all energy sold in the state from clean, renewable sources by 2021.

The \$850 million Energy Independence Fund will support a broad array of activities, including early-stage financing and project financing, along with new incentives for energy conservation and solar energy.

To fund these investments, the Pennsylvania Energy Development Authority will issue \$850 million in bonds.

Enact The Jonas Salk Legacy Fund

More than \$500 million in state funds, along with leveraged private dollars, will be used to accelerate medical research in Pennsylvania.

By leveraging additional private dollars, The Jonas Salk Legacy Fund will draw world-class researchers to Pennsylvania by funding the expansion of bioscience laboratories and incubators, and by helping colleges, universities and academic medical centers nurture entrepreneurship in the life sciences.

The Jonas Salk Legacy Fund will support two major types of investments:

Starter Kits will provide grants to renovate, furnish and equip research facilities.

Bricks and Mortar Grant Financing for the expansion, renovation or construction of biomedical research facilities and labs.

Protecting Our Progress

Expand the Job Creation Tax Credit from \$1,000 to \$3,000 per Employee

The Job Creation Tax Credit program is a powerful economic development tool in the effort to attract new business facilities to Pennsylvania and assist existing Pennsylvania companies with expansion of their in-state operations.

By awarding \$3,000 per job created, Pennsylvania will provide additional capital to growing companies, encourage the creation of new jobs and free up cash for reinvestment into additional growth.

Reduce the Interest Rate on Commonwealth Lending Programs for Businesses

*By lowering the interest rate to **2 percent below prime** for the commonwealth's three most popular business lending programs – the **Machinery and Equipment Loan Fund, the Pennsylvania Industrial Development Authority and the Small Business First Fund** – Pennsylvania will stimulate business investment that otherwise would not occur and make planned investment more affordable.*

Provide \$100 Million to Continue the Business in Our Sites Program

The Business in Our Sites program provides loans and grants for the acquisition and development of sites for future use by businesses.

*Based on the average funding levels for Business in Our Sites projects approved to date, **an additional 20 projects could be funded, leveraging at least \$270 million in private investment.***

Protecting Our Progress

Extend the Keystone Opportunity Zone Program

Will encourage the development of underutilized land and buildings, creating business districts to revitalize the economy, spur job creation and improve the quality of life in Keystone Opportunity Zone areas.

Increase the Infrastructure Development Program

This program provides grants and loans to assist private companies or developers with infrastructure improvements needed for a business to locate or expand at a specific site.

An additional \$10 million will enable the commonwealth to assist at least 20 additional projects, which will leverage an additional \$250 million in private capital.

Rebuilding Pennsylvania Infrastructure Initiative

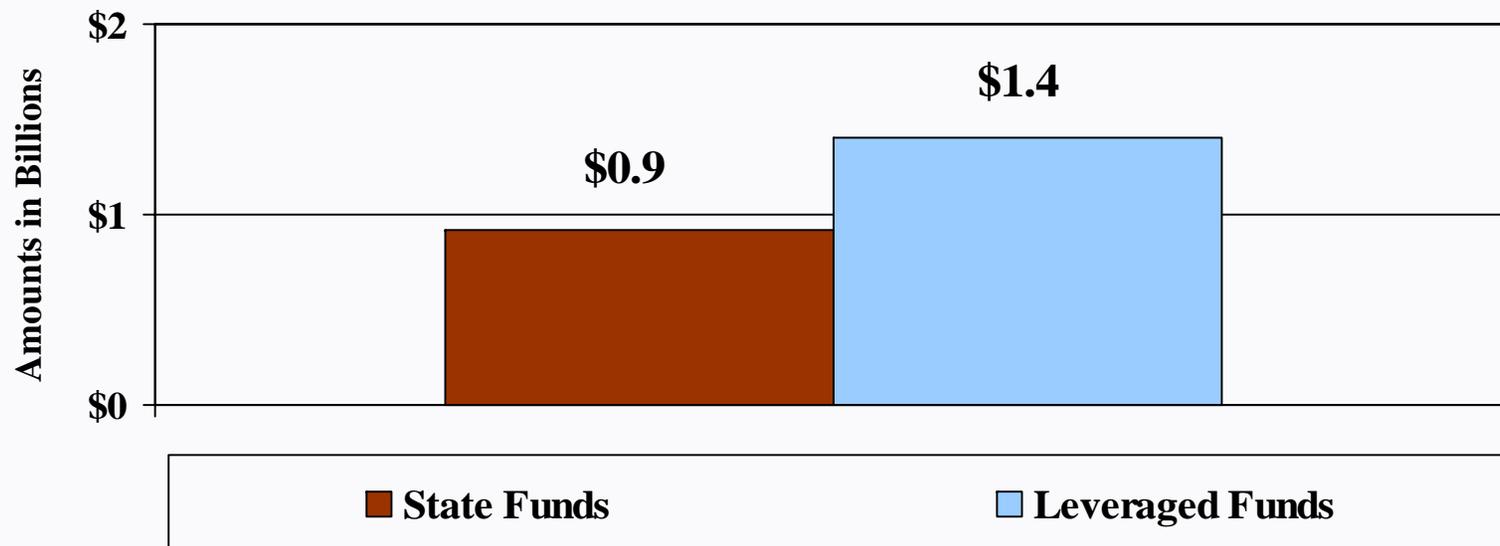
A total of more than \$260 million in 2008-09 to address some of the state's most critical infrastructure:

*Bridges
Rail freight lines
Small airports
High-hazard dams
Flood projects*

Protecting Our Progress *One-Year Leveraged Investments*

Protecting Our Progress will invest \$900 million dollars in its first year. That state investment will leverage an additional \$1.4 billion in private and non-state funds for a total of \$2.3 billion by June 30, 2009.

Over 10 years, Protecting Our Progress will invest more than \$10 billion in Pennsylvania's economy.



2008-09 Budget Overview

Rebuilding Pennsylvania *Infrastructure Initiative*

Rebuilding Pennsylvania *Infrastructure Initiative*

*Governor Rendell's short-term stimulus package – **Protecting Our Progress** – is designed to offer immediate fiscal relief to struggling working families and infuse much-needed capital into public works projects and local business development. The Governor's Rebuilding Pennsylvania infrastructure initiative, a critical component of the Protecting Our Progress plan, will invest more than \$260 million in 2008-09 into Pennsylvania's most urgent infrastructure needs, including unsafe bridges, high-hazard dams, crucial rail freight lines, small airports and flood-related projects.*

- **Ramping Up Repair:** 1,000 Rebuilt Bridges by 2010-11.
- **Safety First – Repairing Pennsylvania's Dams:** Repair 24 state-owned, high-hazard, dams by 2010. New \$6.6 million grant program to help local governments with the repair of municipal dams (state provides up to 30 percent of total repair cost).
- **Pennsylvania's Flood Prevention program:** A total of \$100 million through 2010 to make flood-prone communities safe.
- **Pennsylvania's Rail Freight Economic Development program** Adding \$30 million for rail freight expansion over the next three years.
- **Pennsylvania's Aviation Economic Development program:** An additional \$15 million in new funding over the next three years to address medium/small-city/regional airport expansion.
- **Pennsylvania Infrastructure Bank:** Low-cost financing for highway, bridge, aviation, rail freight and public transportation projects. Increase 2007-08 authorization from \$17 million to \$30 million and continue at \$30 million in 2008-09 and beyond.

Rebuilding Pennsylvania (Dollars in Millions)

	2008-09	2009-10	2010-11
<u>New Capital Funds</u>			
Bridge Repairs	\$200.00	\$200.00	\$200.00
State-owned Dam Repairs	\$12.00	\$25.00	\$0
New Flood Projects	\$13.00	\$20.00	\$58.00
New Aviation Projects	\$5.00	\$5.00	\$5.00
New Rail Freight Projects	\$10.00	\$10.00	\$10.00
Total—New Capital Funds	\$240.00	\$260.00	\$273.00
<u>New General Fund Expenditures</u>			
Treasury-Debt Service	\$0.00	\$2.50	\$5.30
PENVEST-Local Dam Repairs	\$2.20	\$4.40	\$0.00
Environmental Protection-Flood Control Projects	\$3.00	\$3.00	\$3.00
Conservation and Natural Resources- Infrastructure Mapping	\$2.40	\$0.00	\$0.00
Emergency Management and Homeland Security			
New Flood Mitigation Positions	\$0.20	\$0.20	\$0.20
Environmental Protection			
New Flood/Dam Positions	\$1.30	\$1.30	\$1.30
Total—General Fund	\$9.10	\$11.40	\$9.80
<u>Other Operating Funds</u>			
Additional Pennsylvania Infrastructure Bank Funding	\$13.00	\$13.00	\$13.00
<u>New Motor License Fund Expenditures*</u>			
New Bridge Repair Debt Service	\$1.80	\$16.70	\$32.60
<u>Flood Remediation Fund Expenditures</u>			
New Flood Projects Debt Service	\$0	\$1.20	\$3.30
Total—All Funds	\$263.90	\$302.30	\$331.70

2008-09 Budget Overview

Property Tax Relief

Estimated Property Tax Relief

The 2008-09 budget marks the beginning of historic property tax relief for all Pennsylvania homeowners. The Taxpayer Relief Act of 2006 uses revenue from expanded gaming to fund property tax cuts in two ways:

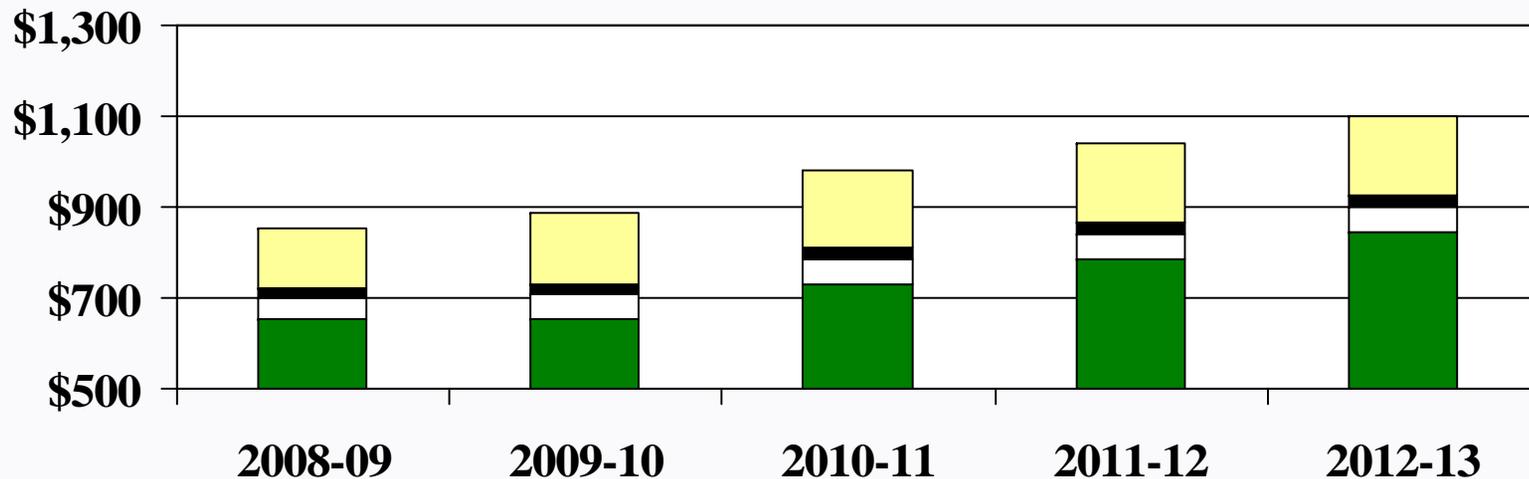
***To provide the quickest relief to the senior citizens who have the most urgent need.** The annual expansion of the state's Property Tax/Rent Rebate program began in 2007. In 2008-09, an additional \$134 million in Property Tax/Rent Rebates will be provided to senior citizens.*

***To reduce property taxes for all Pennsylvania homeowners.** This broad-based property tax relief will begin in 2008-09, with Pennsylvanians receiving a total of approximately \$672 million.*

Type of Tax Relief	Tax Relief in 2008-09	Tax Relief in 2009-10	Tax Relief in 2010-11
Relief for all Homeowners from gaming revenue (wage tax relief in Philadelphia)	\$671.5 M	\$674.7 M	\$754.5 M
Enhanced property tax rebates of up to \$650 for senior citizens earning up to \$35,000 per year	\$133.8 M	\$157.9 M	\$169.8 M
Higher rebates for senior citizens with a high tax burden or those living in cities with a high tax burden	\$48.5 M	\$55.3 M	\$55.5 M
TOTAL	\$853.8 M	\$887.9 M	\$979.8 M

Property Tax Relief

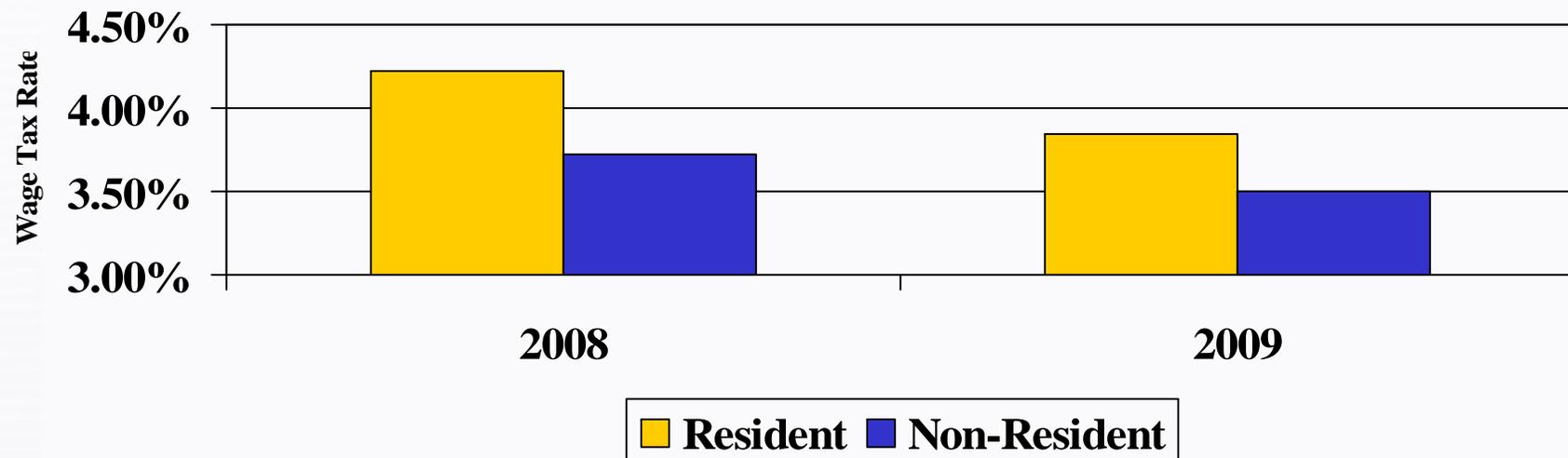
In 2008-09, Pennsylvanians will receive more than \$850 million in long-awaited property tax relief. Of that amount, \$652 million will go towards broad-based property tax relief, \$49 million for supplemental property tax relief for qualified seniors, \$19 million in Sterling Act payments and \$134 million for the Enhanced Property Tax/Rent Rebate program.



Philadelphia Wage Tax Relief

In 2008-09, broad-based property tax cuts will average close to \$185 for every Pennsylvania household. Philadelphia's share of funding for broad-based tax relief will be used to reduce the city's wage tax instead of its property tax, since the wage tax is a greater barrier to economic growth in Philadelphia.

In 2008-09, the Philadelphia wage tax is projected to drop below 4 percent for city residents, in large part the result of state-funded tax relief. The Taxpayer Relief Act also allows Scranton to use a portion of its tax relief funds to cut that school district's wage tax, which is the highest of all Pennsylvania school districts.



2008-09 Budget Overview

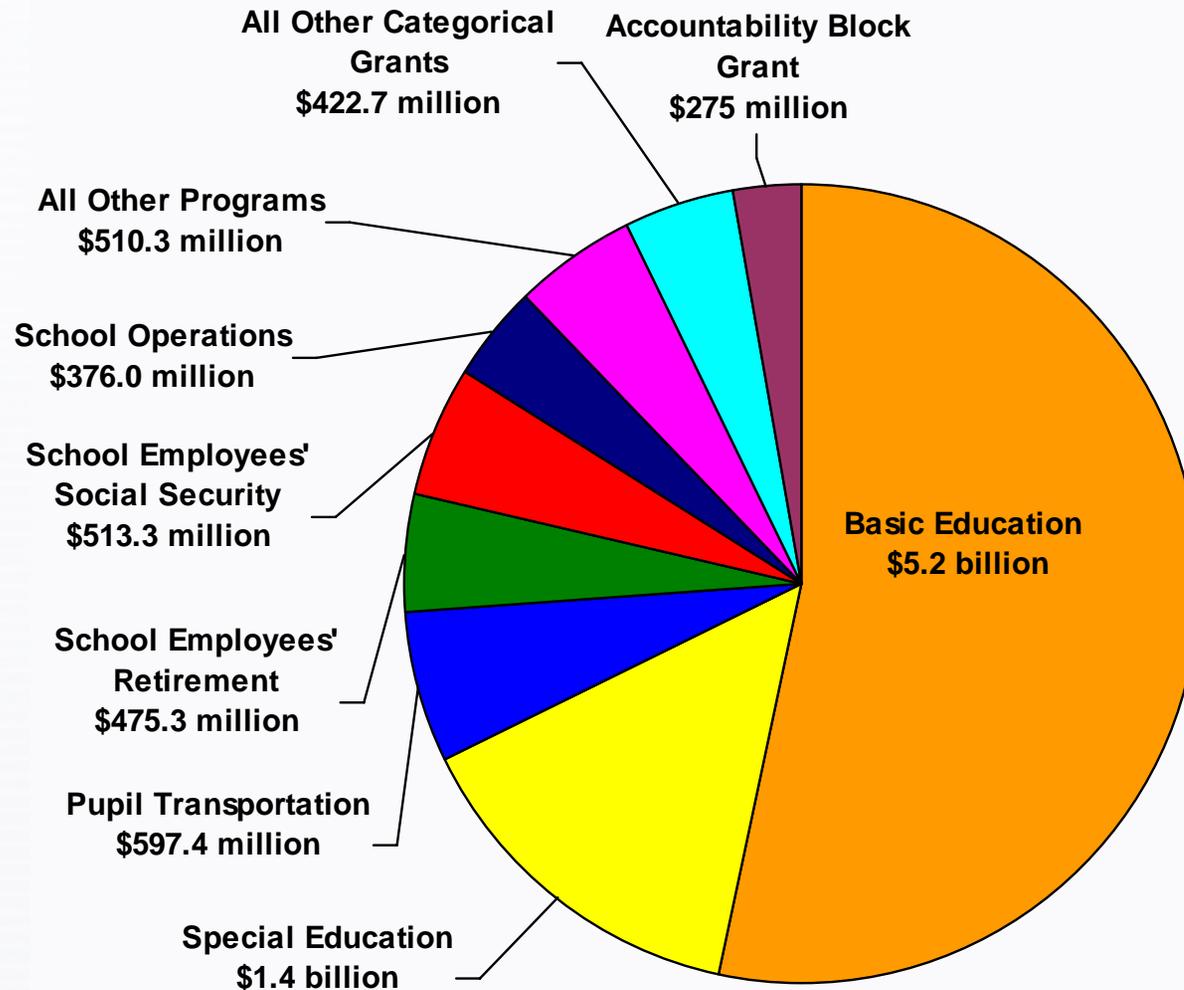
Education

Investing in Pennsylvania's Future

The 2008-09 budget increases total education funding by \$476 million.

- **\$470.5 million increase (5 percent) in PreK-12 Education** - \$9.8 billion in total
- **\$291 million increase (5.9 percent) for Basic Education** to implement a funding approach to assist school districts to reach a research-based adequate funding level
- **\$30.3 million increase (3 percent) in Special Education Funding** - \$1 billion in total
- **\$275 million** in order to maintain the funding level for the fourth year of the **Accountability Block Grants** for school districts to invest in full-day kindergarten programs
- **\$12.6 million increase (17 percent)** to enhance the **Pennsylvania Pre-K Counts** program – \$87.6 million in total
- **\$40 million** in state funding for **Head Start** pre-kindergarten classrooms to serve 5,620 children
- **\$66 million** for **tutoring** in the most academically challenged school districts (*Job Ready PA*)
- **\$6.9 million increase** for **community colleges** (*Job Ready PA*)

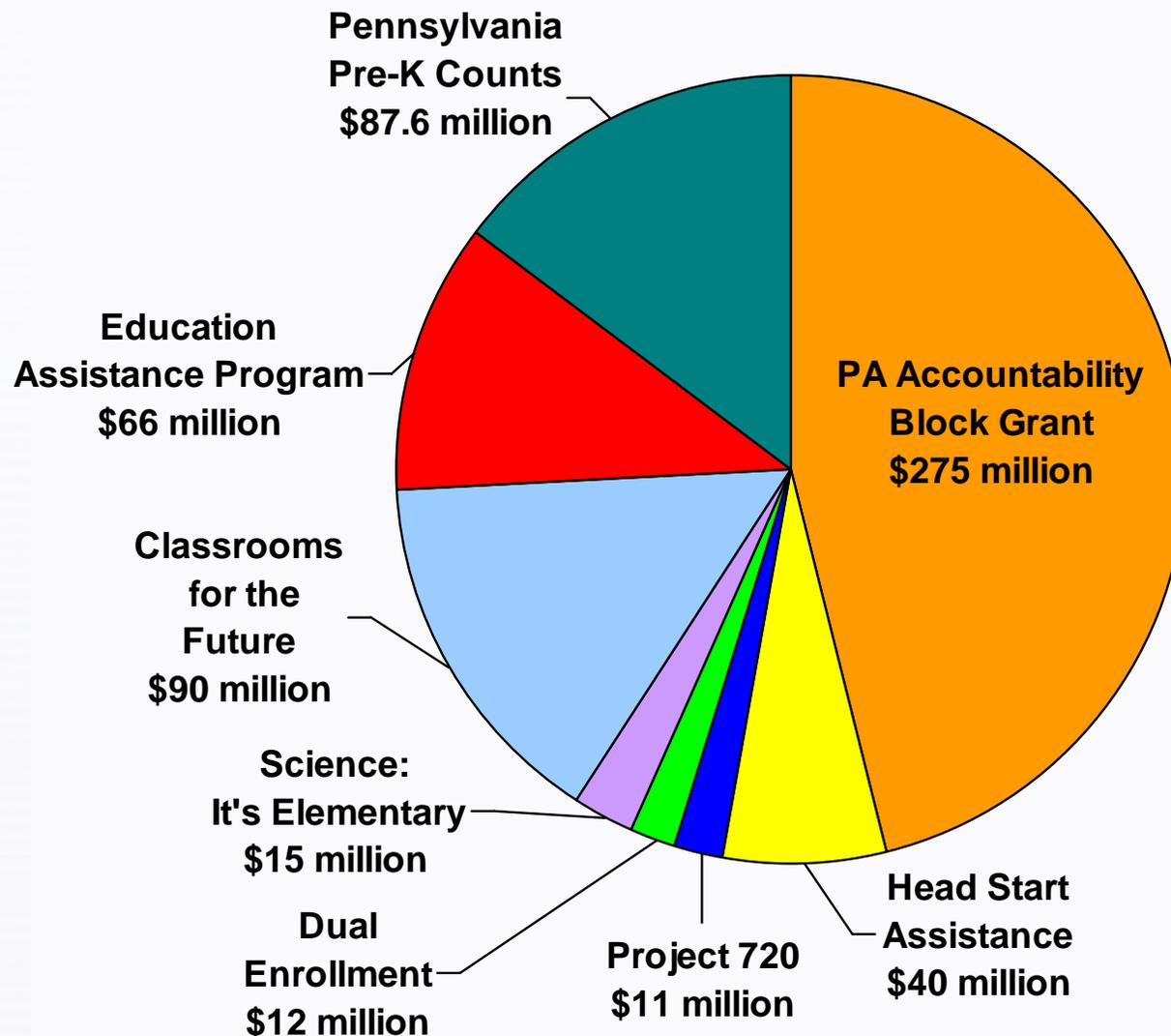
2008-09 Funding for PreK-12 Education



Since 2002-03, the Rendell administration has boosted investments in education by \$2.9 billion, or nearly 42 percent, to a total of \$9.8 billion.

**Total:
\$9.8 Billion**

2008-09 Targeted Education Investments



The 2008-09 budget provides nearly \$597 million in targeted education investments designed to improve student achievement.

**Total:
\$597 Million**

Investing in Pennsylvania's Future

Early Childhood Education Funding

Pennsylvania is moving from near-last among the 50 states to becoming a key investor in early childhood education. In 2007-08 Pennsylvania provided services to nearly 192,000 children as a result of its Early Childhood Education initiatives. The 2008-09 budget makes significant investments in pre-kindergarten, full-day kindergarten, Head Start and Keystone STARS in order for these proven programs to continue to serve Pennsylvania's children.

Significant investments in the 2008-09 budget include:

- **\$87.6 million** – for Pennsylvania Pre-K Counts, making it possible to enroll 12,000 children ages 3 and 4 in quality pre-kindergarten programs.
- **\$20 million** – for school districts to invest in full-day kindergarten programs by launching or expanding these essential early educational experiences and maintaining full-day kindergarten participation at 65 percent of all Pennsylvania children.
- **\$40 million** – for Head Start, making it possible to enroll 5,620 children ages 3 and 4 in this successful program.
- **\$61.5 million** – for Keystone STARS, which offers child care providers research-based performance standards, professional development and on-site technical assistance. This funding brings the total number of children served to more than 170,900 children.

Pennsylvania Pre-K Counts

*The 2008-09 budget continues to build on Pennsylvania's education accomplishments over the last four years by providing **\$87.6 million for the Pennsylvania Pre-K Counts initiative.***

Study after study has proven what parents all over Pennsylvania already know: quality pre-kindergarten gives young children the early skills they need to prepare them for a lifetime of achievement.

The **Pennsylvania Pre-K Counts** program enables school districts, Head Start providers, child care centers and nursery schools to deliver high-quality pre-kindergarten to more children and their families across the commonwealth – with a focus on the children who are at the greatest risk of future academic failure.

2008-09 Budget:

- **\$12.6 million increase** provided for Pennsylvania Pre-K Counts.
- This total funding of **\$87.6 million** will make it possible for 12,000 children ages 3 and 4 to enroll in pre-kindergarten in the 2008-2009 school year.

Accountability Block Grant

*The 2008-09 budget maintains the commitment to build on Pennsylvania's education accomplishments over the last four years by providing **\$275 million for the Pennsylvania Accountability Block Grant.***

The **Accountability Block Grant** is a landmark investment launched by Governor Rendell to enable school districts to invest in the educational programs that are proven to help children succeed. School districts have overwhelmingly chosen to invest their share of the Accountability Block Grant in early childhood education – with \$7 out of every \$10 of Block Grant resources used for programs that benefit the youngest Pennsylvanians.

2008-09 Budget:

- An estimated **\$15 million** will be invested in quality pre-kindergarten programs.
- An estimated **\$25 million** will create opportunities for children to enroll in full-day kindergarten – maintaining participation in full-day kindergarten at 65 percent of all kindergartners, up from 30 percent when Governor Rendell took office.
- 350 of 501 school districts are now participating in full-day kindergarten and are serving more than 57,600 children.

Science: It's Elementary

*The 2008-09 budget continues to build on Pennsylvania's education accomplishments over the last four years by providing **\$15 million for the Science: It's Elementary initiative.***

In 2006-07, Governor Rendell invested \$10 million to launch **Science: It's Elementary**, paving the way for all Pennsylvania elementary students to be scientists in the classroom. Science: It's Elementary provides inquiry-based science instruction in grades K through 6, intensive teacher training, coaching, professional development and fully stocked science kits so every child in the classroom can experience hands-on learning.

- A total of **\$15 million** – an 11 percent increase – recommended in the 2008-09 budget will expand access to this innovative and proven science program, giving opportunities to an additional 6,500 students in new school districts.
- More than 90,000 elementary students will benefit from enhanced science education through Science: It's Elementary. Pennsylvania fully expects these students to be better prepared for the rigorous statewide PSSA science assessments that will first be administered in the 2007-2008 school year.

Transforming Pennsylvania's High Schools

The 2008-09 budget provides more than \$29.2 million in additional funding to increase the rigor of high school curricula.

- ***Job Ready PA: \$12 million*** for **dual enrollment** programs that let high school students earn college credit while they complete their graduation requirements
- ***Job Ready PA: \$11 million*** to transform Pennsylvania's high schools through **Project 720**, the state's **high school improvement** initiative
- ***Reinvigorating College and Career Counseling: \$3 million*** for school districts to **upgrade their career and counseling programs**
- ***Quality Leadership: \$2 million*** to make school-leader accountability a reality through **the Pennsylvania Inspired Leadership System**
- ***Quality Teaching: \$1.2 million*** to help 500 Pennsylvania teachers earn **National Board for Professional Teaching Standards** certification

Classrooms for the Future

*The 2008-09 budget continues to build on Pennsylvania's education accomplishments over the last four years by providing **\$90 million for the Classrooms for the Future initiative.***

Classrooms for the Future is based on the need for high school reform, enabling teachers to use technology as an effective tool for educating students and preparing students to enter and successfully compete in the ever-expanding high-tech global marketplace. Students must be prepared to compete for high-quality jobs with the best students from around the world.

Classrooms for the Future is changing the way teachers teach and students learn by transforming every high school classroom into a “smart” classroom and providing laptop computers for every teacher and student in English, Math, Science and Social Studies classes.

2008-09 Budget:

- This funding will bring more than 600 high schools into the 21st century, doubling the number of computers available to students to 190 laptops and other equipment, vastly expanding opportunities for more students across Pennsylvania.

High School Reform – Project 720

*The 2008-09 budget continues to build on Pennsylvania's education accomplishments over the last four years by providing **\$11 million for the High School Reform – Project 720 initiative.***

Named for the number of days a Pennsylvania student spends in school from 9th through 12th grades, Project 720 ensures that all students have access to college-prep courses in core subject areas, additional Advanced Placement courses and smaller learning environments for better one-on-one teacher-to-student interaction.

In 2006-07, nearly 115,000 students in 118 high schools across 94 school districts participated in Project 720 with the following results:

- 2,800 more 9th grade students took algebra.
- 4,600 more 9th and 10th grade students were offered tutoring or extra help.
- 6,120 more students were given individual career counseling and guidance.
- 1,250 more students took college courses while still in high school.
- Project 720 schools offered 15 percent more Advanced Placement courses than other schools.

2008-09 Budget:

- The **\$11 million** recommended will allow 161 high schools, or 24 percent of all high schools, to participate in Project 720. Approximately 72,400 advanced placement tests will be given in high schools with 85 percent of all high schools offering at least one advanced placement test.

Dual Enrollment

*The 2008-09 budget continues to build on Pennsylvania's education accomplishments over the last four years by providing **\$12 million for the Dual Enrollment initiative.***

Dual Enrollment helps students successfully transition into higher education and careers by assisting school districts and Career and Technical Centers (CTC) to partner with community colleges and four-year colleges and universities to offer high school juniors and seniors the opportunity to earn college credit while completing their high school requirements. The program also provides funding for innovative Early College High School, Middle College High School and Gateway to College programs.

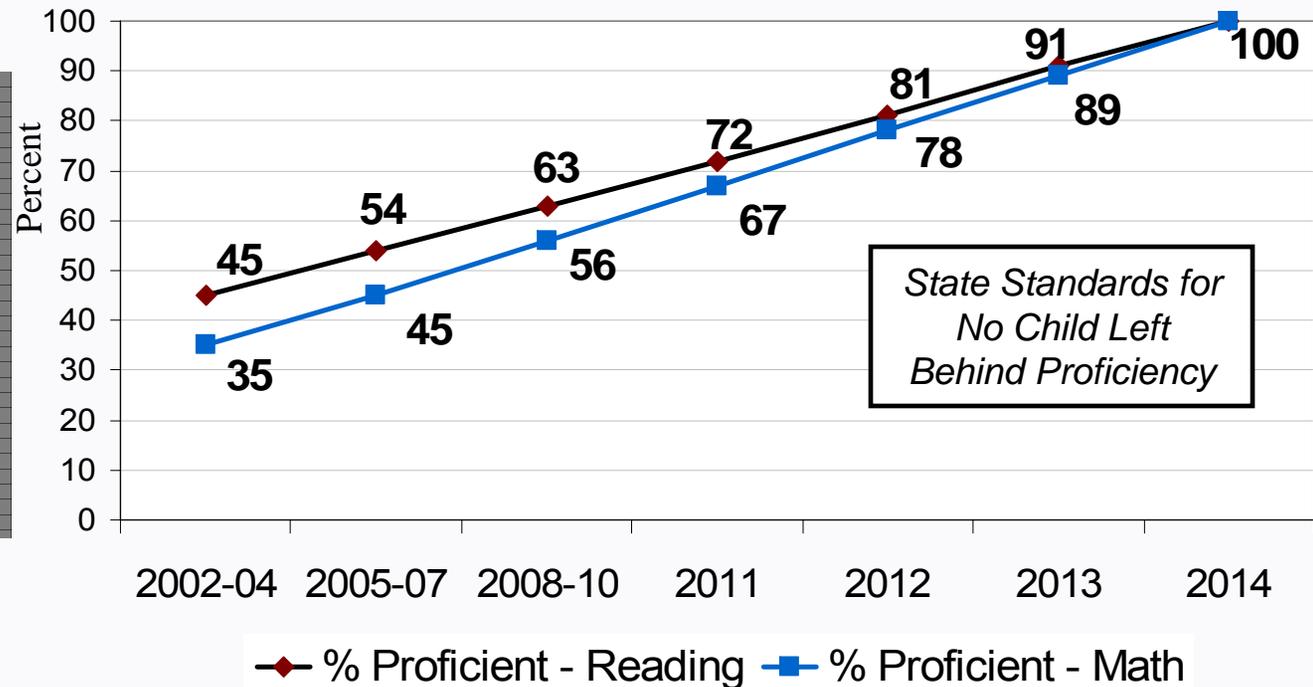
2008-09 Budget:

- The **\$2 million increase** (20 percent) provides Dual Enrollment opportunities to more students, especially low-income students who need the most support and encouragement, or might otherwise be “priced out” of this experience.
- In 2007-08 more than 12,000 students are participating in 18,326 post-secondary courses.
- This school year, 306 school districts and CTCs are partnering with 112 post-secondary institutions.

No Child Left Behind Reading & Math Targets

Pennsylvania has until 2014 to reach 100 percent proficiency in reading and math, as required by the federal No Child Left Behind standards. Our investment in proven educational programs must keep pace if Pennsylvania schools are to reach these achievement goals. These investments are already showing results. The number of eighth-graders meeting state standards in math increased from 52 percent of our students in 2002 to 68 percent in 2006-07, while the number of eighth-graders meeting standards in reading rose from 59 percent to 75 percent during the same period. In addition, in a recent ranking of the percentage of proficient fourth-grade reading students, Pennsylvania advanced from 13th in 2002 to 9th in 2005.

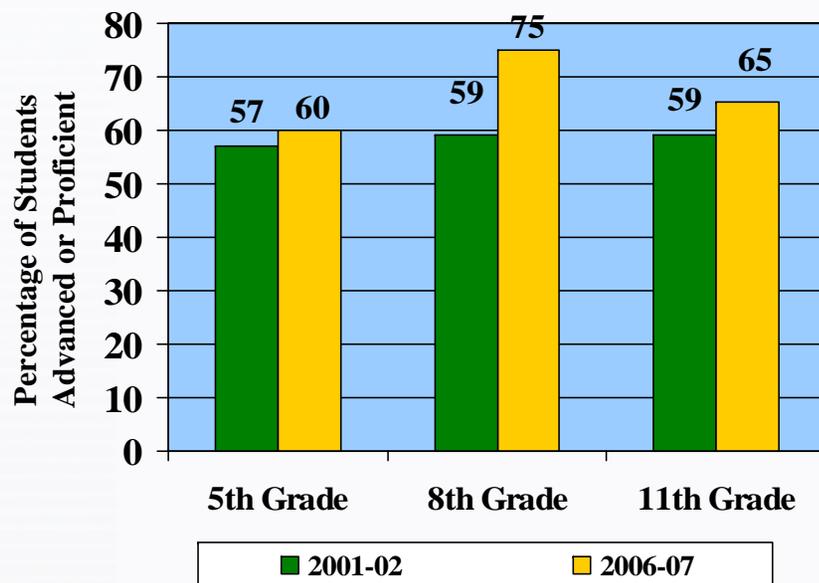
In 2006-07, one in four Pennsylvania schools failed to make Adequate Yearly Progress as defined by No Child Left Behind, and the requirements will get even steeper beginning this spring.



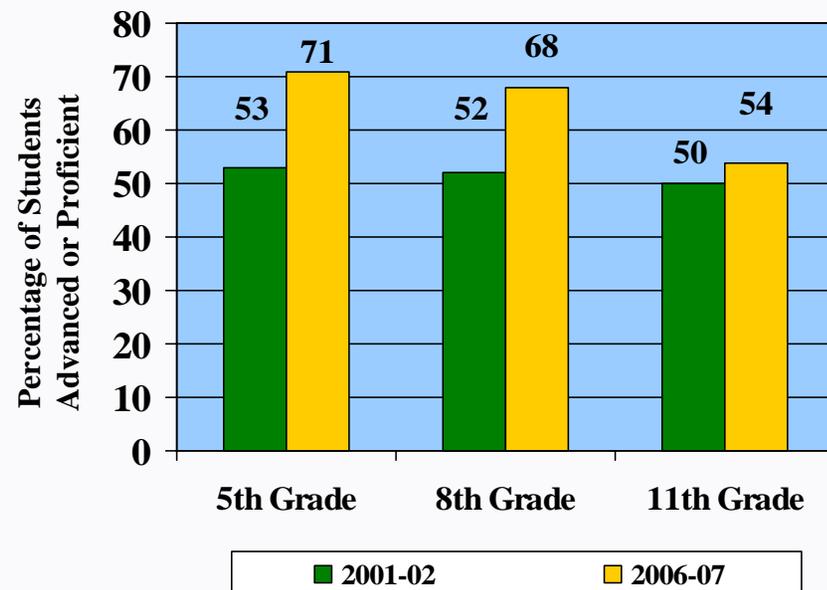
Student Achievement

Since 2002, students across Pennsylvania have made significant progress in achievement. There has been an increase in performance results across every grade level in both reading and math. Pennsylvania is one of only nine states making significant progress in elementary school reading and math on the "nation's report card" since 2003.

Reading PSSA Results
2001-02 vs. 2006-07



Math PSSA Results
2001-02 vs. 2006-07



PSSA: Pennsylvania System of School Assessment

2006-07 Adequate Yearly Progress and Pennsylvania System of School Assessment

The latest AYP and PSSA results show that Pennsylvania is on track to move all students to proficiency by 2014, as required by the federal No Child Left Behind Act of 2002. Schools and school districts across the commonwealth have reaped the benefits of targeted investments in proven practices to ensure that ALL children have an opportunity to achieve at high levels. Pennsylvania's efforts have already paid dividends. This year's testing results confirm that last year's unprecedented gains are real and are being sustained.

- ✓ 90 percent of Pennsylvania School Districts and 75 percent of schools met Adequate Yearly Progress goals in 2007.
- ✓ Students in the lowest-performing school districts have made significant progress in reading and mathematic proficiency since the 2001–2002 school year.
 - ✓ Fifth graders improved by 17.9 percentage points in mathematics and 2.9 percentage points in reading
 - ✓ Eighth graders improved by 16.2 percentage points in both mathematics and reading
 - ✓ Eleventh graders improved by 4.1 percentage points in mathematics and 6.4 percentage points in reading

Higher Education in the 2008-09 Budget

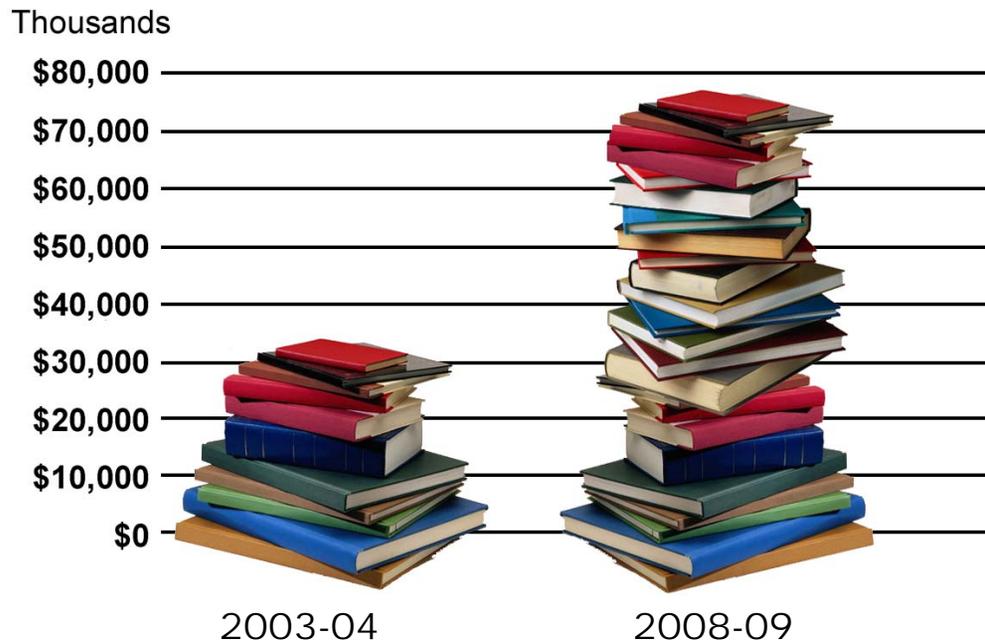
Pennsylvania is making significant investments in higher education funding in the 2008-09 budget to assist institutions in providing quality educational opportunities for students.

Higher Education funding includes:	Total 2008-09 State Funding
3.0% increase in operating for the Community Colleges	\$ 280.7 M
3.0% operating increase for State System of Higher Education	\$ 518.8 M
1.5% operating increases for the State-Related Universities	
Penn State University	\$ 336.8 M
University of Pittsburgh	170.3 M
Temple University	175.5 M
Lincoln University	14.0 M
Total – State-Related Universities	\$ 696.6 M
Non-State-Related Universities	\$ 75.6 M
PA Higher Education Assistance Agency	\$ 463.6 M

Total Higher Education Funding: \$2.06 Billion.

Historic Level of Support for Public Libraries in the 2008-09 Budget

Support for Public Libraries



Building a knowledge society demands a strong investment in our public libraries. This budget continues to increase library funding, bringing the state subsidy for local libraries to \$77.3 million. This increase reaffirms Pennsylvania's current standing as a national leader in state funding for libraries.

2008-09 Budget Overview

Promoting Economic Growth, Job Creation and Business Competitiveness

Pennsylvania's Economic Competitiveness

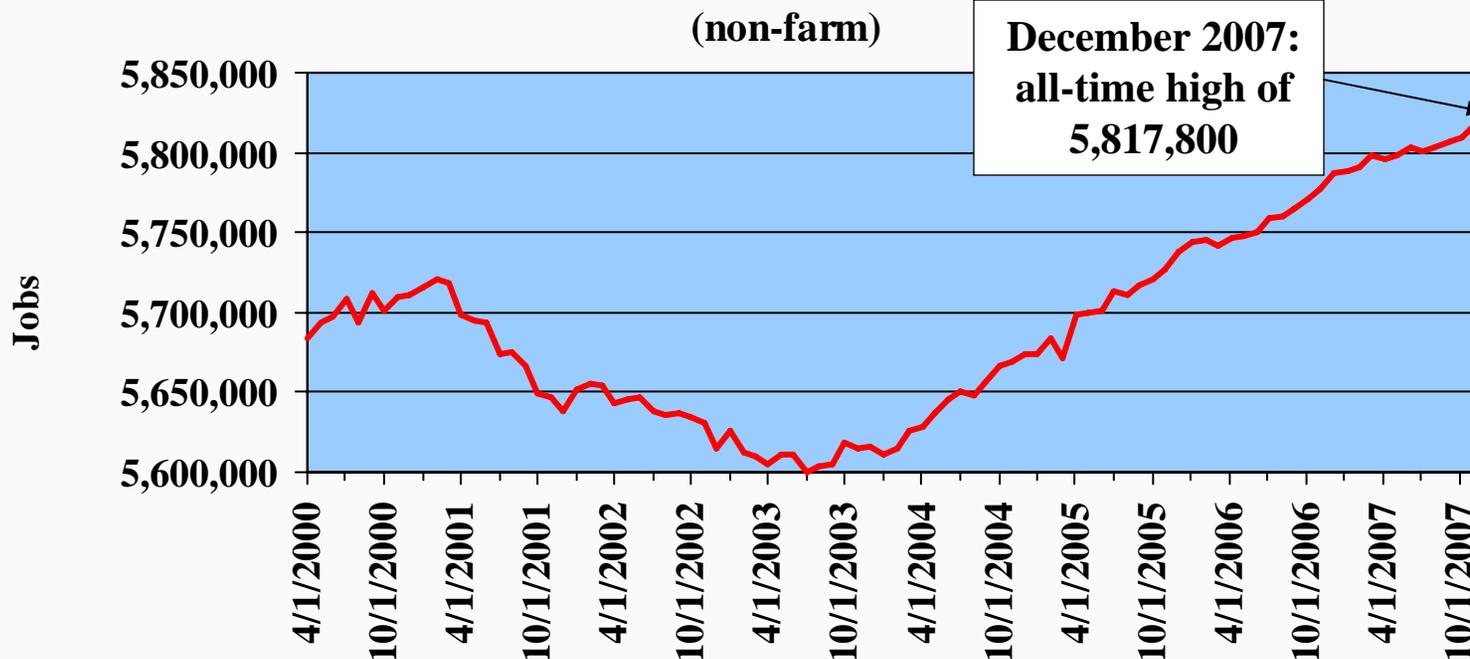
Pennsylvania has improved its competitive position among the states since 2002-03 due in large part to the Economic Stimulus program, the "Job Ready PA" workforce development program, targeted business tax cuts, Growing Greener and enhanced investments in education at every level.

- ✓ Pennsylvania has the world's 17th largest economy. The commonwealth's gross domestic product has risen to \$510 billion, up 21 percent since 2002. Pennsylvania ranks ahead of Saudi Arabia, Sweden and Switzerland and is greater than South Africa, New Zealand, Malaysia and Ecuador combined.
- ✓ Since 2002, Pennsylvania's growth in exports has outpaced the national trend and the trend in key competitor states, including Illinois, New York, Indiana, Ohio, New Jersey and Michigan. Exports are up by two-thirds – a \$10.5 billion jump – from 2002 to 2006.
- ✓ In 2002, Pennsylvania exports ranked 37th. In 2005, Pennsylvania exports ranked 9th.
- ✓ Venture capital investment increased by a substantial 70 percent between 2002 and 2006, to \$778 million.
- ✓ Since 2002, state-assisted trade sales have increased 156 percent in Pennsylvania, stronger than the national trend and key competitor states.
- ✓ Pennsylvania remains the most successful state at attracting manufacturing projects (10 percent of all North American projects in 2005). The March 2006 issue of Site Selection magazine ranked Pennsylvania among the top 10 states in the nation with respect to new and expanded corporate facilities, outperforming all other states in the Northeast.

Pennsylvania Job Growth

Job growth is a key measure of Pennsylvania's improving economy since 2003. In December 2007, Pennsylvania reached a historic high in the number of non-farm jobs, seasonally adjusted. Despite a rise to 4.7 percent, December marked the 50th month out of the past 60 that Pennsylvania's unemployment rate has been at or below the nation's rate, which rose to 5 percent in December. Since January 2003, the Pennsylvania economy has generated a net increase of 189,600 jobs. State investments, including the Economic Stimulus program and increased investments in education and workforce development, have been major factors behind the turnaround.

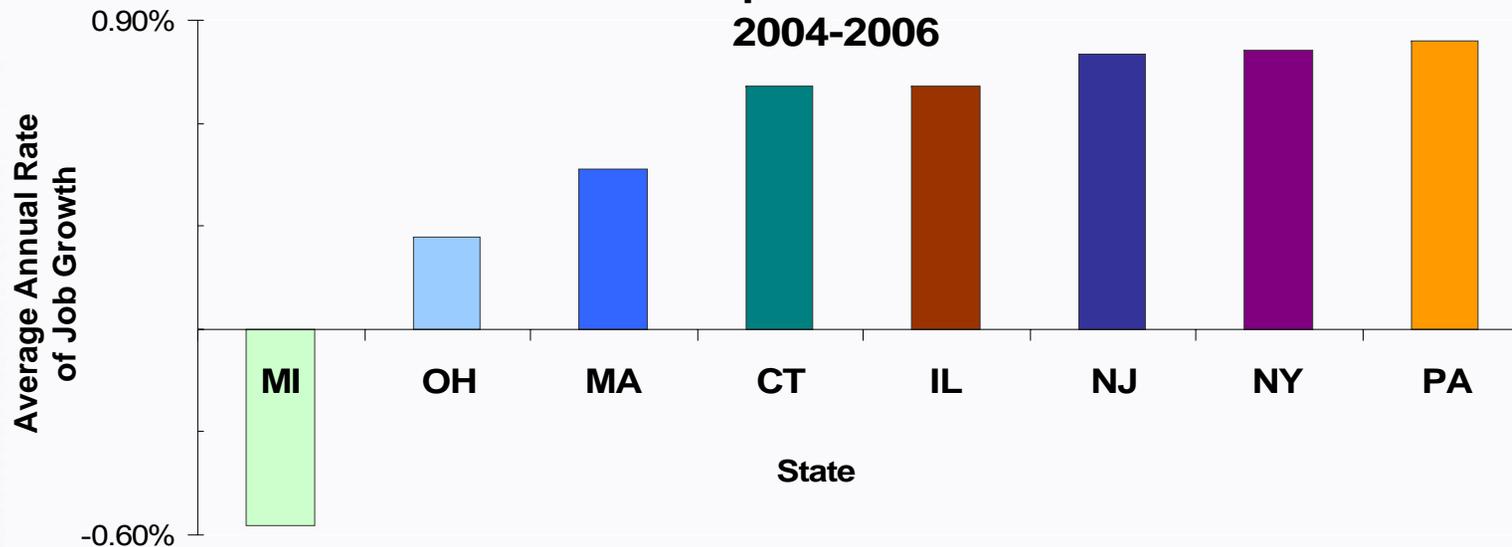
Steady Rise in Pennsylvania Jobs



PA Job Growth Outperforms Similar States

For Pennsylvania, the general slowing of the U.S. economy has been offset, in part, by relatively strong job growth. Pennsylvania's job growth has routinely outperformed similar states. From 2004 through 2006, Pennsylvania had a higher average job growth rate than surrounding and competitor states like Michigan, Ohio, Massachusetts, Connecticut, Illinois, New Jersey and New York.

**Pennsylvania's Three-Year Average Annual Job Growth
Outpaces Rivals
2004-2006**



Pennsylvania's Business Tax Climate

In its 2008 State Business Tax Climate Index, the non-partisan, business-funded Tax Foundation ranked Pennsylvania's tax structure 28th best among the 50 states. The Tax Foundation praised the commonwealth for its individual income and property taxing systems and cited Pennsylvania as one of the states likely to raise its ranking steadily over the next few years – making the commonwealth even more appealing to businesses.

In particular, the Tax Foundation:

- ✓ Ranked Pennsylvania's taxing system for Personal Income Tax among the best in the nation, an important factor for the increasing number of businesses that report income through the individual income tax code.
- ✓ Highlighted Pennsylvania as one of the states making positive changes to its tax structure, which will continue to improve its business tax climate.
- ✓ Noted that the Capital Stock and Franchise Tax will be phased out with yearly decreases that will completely eliminate the Capital Stock and Franchise Tax by 2011.

Pennsylvania's Business Tax Climate

In addition to the non-partisan Tax Foundation, other organizations and publications are giving Pennsylvania accolades about its competitive business environment.

- A 2006 study by IBM Business Consulting Services – Plant Location International recognized Pennsylvania as the number one destination for new projects in 2005 and the top location for manufacturing projects in all of the U.S. and Canada.
- Industrial Diversity – Pennsylvania's business sector achieved an above average level of vitality and is ranked 4th for industrial diversity.
- Growing New Firms – Pennsylvania ranks 5th in change in new companies.
- Innovation Assets – Pennsylvania rated an above average grade in innovation assets (B).
- Pennsylvania ranks 6th in the nation for new and expanded corporate facilities, according to Site Selection magazine.
- Pennsylvania ranks 4th in the nation for new manufacturing facilities, also according to Site Selection magazine. The number of Pennsylvania projects nearly tripled from 2002 to 2005.

2008-09 Budget Overview

Tax Cuts:

2003-04

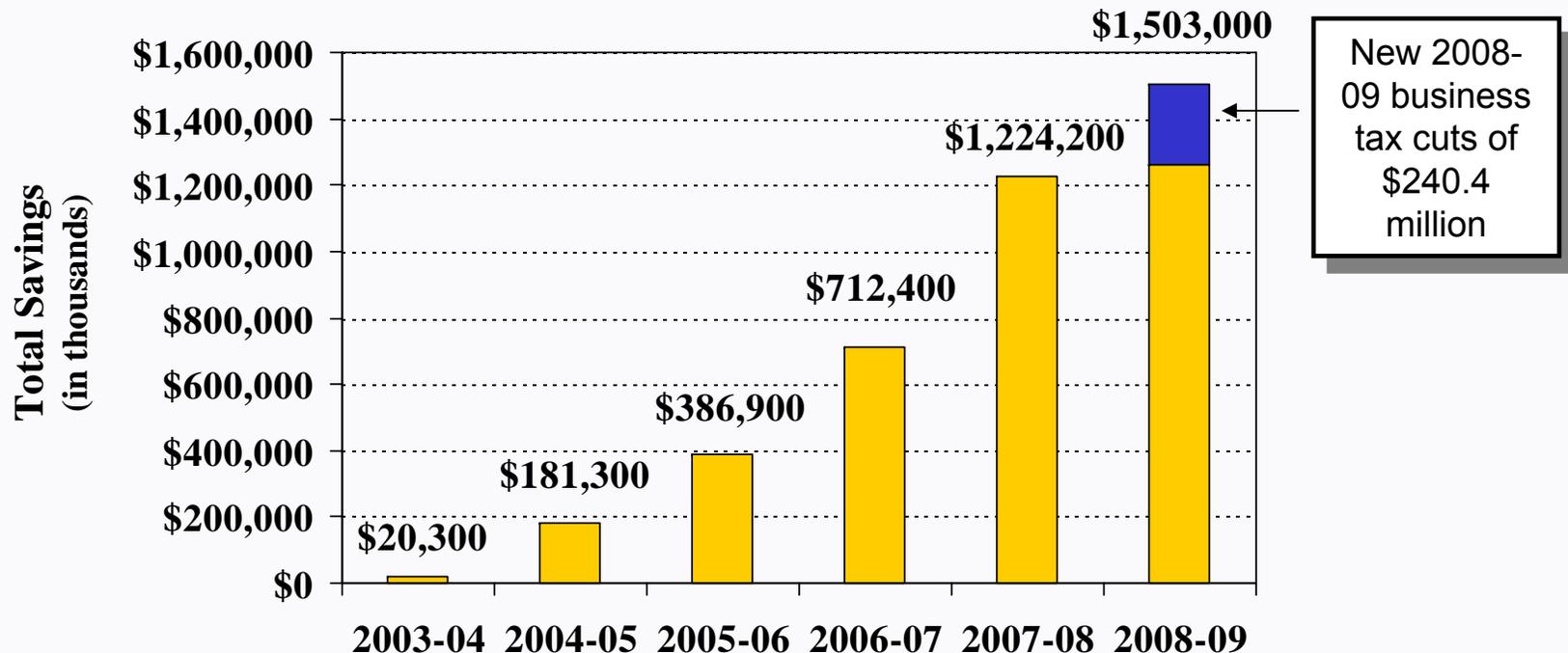
through

2008-09

Cumulative Business Tax Cuts 2003-04 through 2008-09

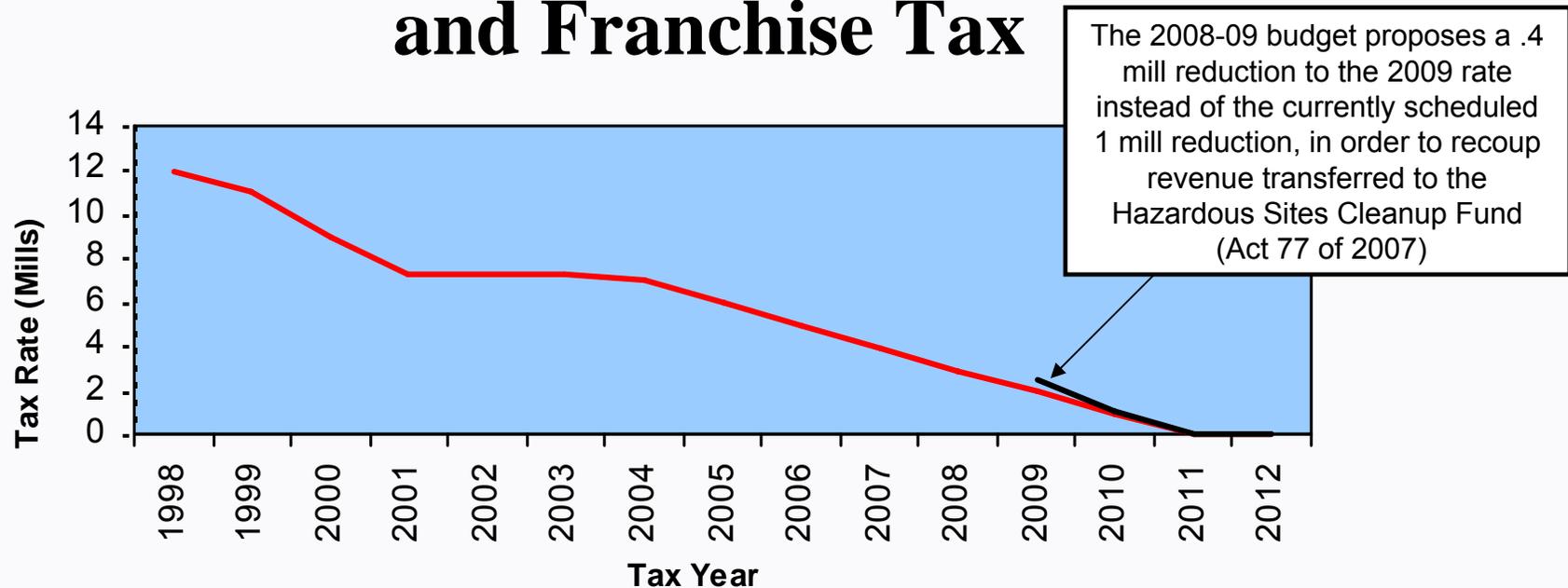
The 2008-09 budget includes \$1.5 billion in savings from business tax cuts, including \$240.4 million in new savings from the phase-out of the Capital Stock and Franchise Tax. Since 2003, the administration has reduced business taxes by \$4 billion, including nearly \$2.8 billion in savings from the savings from the phase-out of the Capital Stock and Franchise Tax.

Annual Value of Business Tax Cuts



CSFT reductions are based on revisions to the rate versus a 7.24 mill base.

Continuing the Phase-Out of the Capital Stock and Franchise Tax

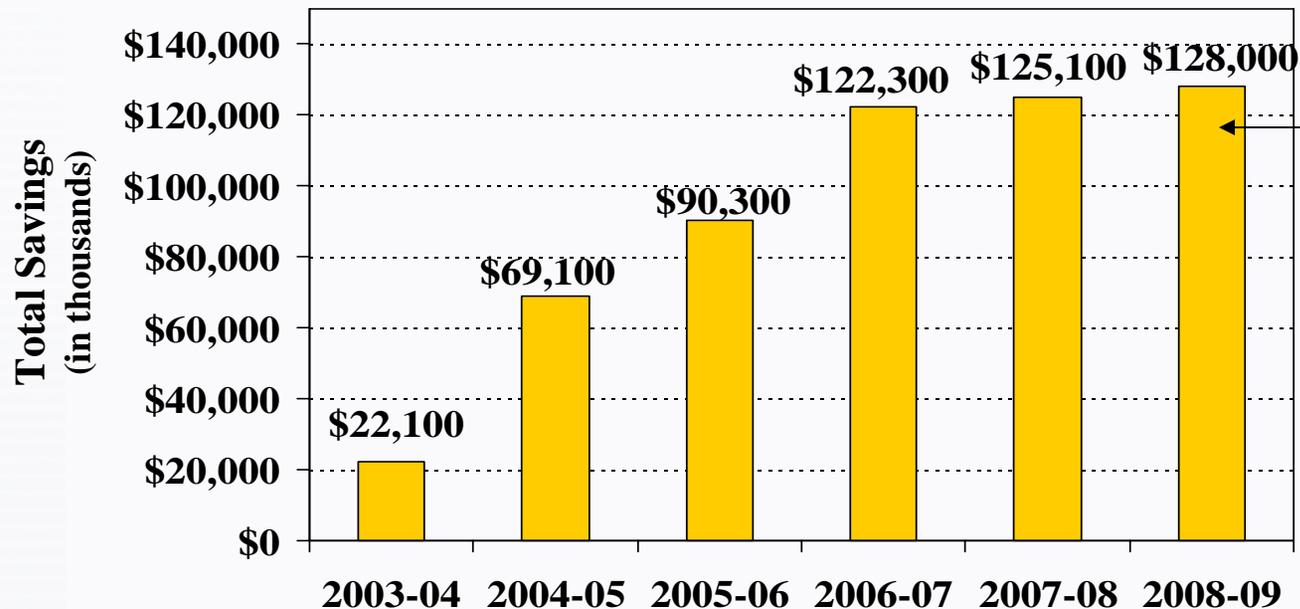


- The Capital Stock and Franchise Tax declined by another one mill to 2.89 mills in 2008, resulting in a \$240.4 million estimated savings to businesses in 2008-09. The 2008-09 budget proposes to continue the phase-out at a modified rate of 2.49 mills. The tax will still be eliminated in 2011.
- Cumulative business tax reductions from major tax savings initiatives for 2003-04 through 2008-09 total nearly \$4 billion, including \$2.8 billion in cumulative savings from the Capital Stock and Franchise Tax phase-out.

Personal Tax Cuts 2003-04 through 2008-09

In addition to savings for businesses, the 2008-09 budget includes \$128 million in savings for individuals and families. The 2008-09 budget also includes Governor Rendell's proposed Protecting Our Progress rebates for lower-income families. Since 2003, the administration has reduced taxes on Pennsylvania individuals and families by a cumulative \$557 million.

Annual Value of Personal Tax Cuts



In addition to the \$128 million of savings in 2008-09, lower-income families may receive up to \$400 per household from the Governor's **Protecting Our Progress** rebates. These rebates would provide an additional \$130 million in savings to Pennsylvania families.

2008-09 Budget Overview

Economic Stimulus Update

Update on the Economic Stimulus Program

(dollar amounts in thousands)

Program	Projects Funded	Funds Committed	Program	Projects	Funds
Infrastructure Projects:			Community Revitalization:		
Business in Our Sites	105	\$295,884	Homeownership Choice	55	\$65,512
PennWorks	61	\$199,999	Hometown Streets	271	\$176,100
Tax Increment Financing	2	\$10,000	Business and Other Private-Sector Investments:		
Infrastructure Facilities Improvement Program	18	\$17,364	First Industries Fund (Agriculture/Tourism)	374	\$76,196
Redevelopment Assistance Capital Program	606	\$1,247,767	Second Stage Loan Program	5	\$2,475
Community Revitalization:			Venture Capital Investment Fund	15	\$47,850
Main Street Downtown Business Renewal	235	\$23,100	Building PA	11	\$52,300
Elm Street Downtown Residential Renewal	149	\$26,000	KIZ	26	\$9,320
Enterprise Zones	134	\$21,175	Venture Guarantee Program	7	182,500
Housing and Redevelopment Assistance	376	\$121,638	PA Base Development Committee	Multiple Sites	\$6,031
			TOTAL	2,450	\$2,581,211

Pennsylvania's Economic Stimulus Program is Creating Jobs

Program	Jobs Pledged
Infrastructure Projects:	
Business in Our Sites	117,359
PennWorks	92,832
Tax Increment Financing	1,500
Infrastructure Facilities Improvement Program	30,824
Community Revitalization:	
Main Street Downtown Business Renewal/Elm Street Residential Renewal	473
Enterprise Zones	1,452
Housing and Redevelopment Assistance	457

Program	Jobs Pledged
Business and Other Private-Sector Investments:	
First Industries Fund (Agriculture/Tourism)	2,495
Second Stage Loan Program	90
Venture Capital Investment Fund	210
Core Industries	
Building PA	393
Keystone Innovation Zones	1,966
TOTAL	250,051

2008-09 Budget Overview

The Energy Independence Strategy

Protecting our Progress

Energy Independence Strategy

Bringing New Clean Energy Companies and Investment to Pennsylvania

The 2008-09 Governor's Budget proposes the Energy Independence Strategy, which will provide \$850 million to bring new clean energy companies and investment to Pennsylvania – creating new jobs and making the commonwealth more environmentally sustainable. Existing electricity rate caps will expire by the end of the year 2010, leaving Pennsylvanians vulnerable to spikes in the cost of electricity. The Energy Independence Strategy will help mitigate the effects of the loss of rate caps by increasing the supply of clean energy generated in the commonwealth.

- Saves consumers \$10 billion in energy costs over the next 10 years.
- Reduces Pennsylvania's reliance on foreign fuels and increases Pennsylvania's clean energy production capacity.
- Expands Pennsylvania's energy production and energy technology sectors to create more jobs.

Energy Independence Strategy

Bringing New Clean Energy Companies and Investment to Pennsylvania

The Energy Independence Fund will provide more than \$100 million in early-stage financing.

Early Stage Financing:

- **Clean Energy Greenhouse (\$56 million):** Program will transform clean energy research and development into products that reach the marketplace. It includes translational research funding, incubator support services and management support services.
- **Clean Energy Venture Capital Fund (\$50 million):** Venture capital turns companies with clean energy concepts into viable employers. This program will help fill the void in Pennsylvania of available early-stage venture capital for energy projects.

Energy Independence Strategy

Bringing New Clean Energy Companies and Investment to Pennsylvania

The Energy Independence Fund will also provide project financing to bring clean energy concepts to reality.

- **Clean Energy Loans and Grants (\$350 million):** Clean Energy Loans and grants to stimulate the development and deployment of clean energy projects and companies.
- **Energy Site Preparation (\$150 million):** Grants and low-interest loans to stimulate the development of highly efficient, advanced energy business sites. As a result, businesses, local governments and economic development organizations will be able to undertake clean energy projects.

Energy Independence Strategy

Bringing New Clean Energy Companies and Investment to Pennsylvania

The Energy Independence Fund will also encourage energy conservation and the expanded use of solar power.

- **Air Conditioner/Refrigerator (AC/R) Swap (\$44 million):** The swap provides rebates to enable residential and small business customers to replace inefficient room air conditioners and refrigerators with new, high-efficiency units at a low cost. This “swap” will reduce the demand for electricity at peak times, which will help lower electricity prices for Pennsylvania residents and businesses.
- **Pennsylvania Sunshine (\$200 million):** This program provides incentives to jump-start the solar market in Pennsylvania by investing in both supply and demand through production grants to manufacturers and rebates to residential and small-business customers who use solar systems with a capacity of up to 20 kilowatts.

Energy Independence Strategy

The Cost of Inaction

- Electricity rates in Pennsylvania could soar by 30 to 60 percent, as has happened in Maryland, Delaware and even in Pike County, when generation rate caps end across most of Pennsylvania by the end of 2010. Without this initiative, consumers will forgo \$10 billion in energy savings over the next 10 years.
- Pennsylvanians will continue to send \$30 billion a year out of the state to buy fuel instead of keeping those dollars at home.
- Pennsylvania will lose the 13,000 jobs and \$3.5 billion in investments the initiative is estimated to bring over the next 10 years.
- After 15 years, an additional 24,682,000 tons of carbon dioxide, 190,200 tons of sulfur dioxide, 54,200 tons of oxides of nitrogen and 2,048 pounds of mercury will be released into the air every year.

2008-09 Budget Overview

The Jonas Salk

Legacy Fund

Protecting our Progress

Accelerating Medical Research to

Create Jobs and Save Lives

The Jonas Salk Legacy Fund *Accelerating Medical Research in Pennsylvania*

The 2008-09 budget provides accelerated funding up to \$500 million for biosciences research, as well as providing additional resources for biotechnology commercialization and investment capital in early stage. Fully funded by a portion of Pennsylvania's Tobacco Settlement Fund revenues, this investment will solidify Pennsylvania's life sciences future. This approach allows the commonwealth to dramatically accelerate the pace of new investment without adversely affecting the commonwealth's General Fund. The \$500 million in state funds will leverage an additional \$500 million in private funds to total a \$1 billion investment.

- **Starter Kits** – Provides grants to renovate, furnish and equip research facilities, including the acquisition of equipment, to assist in attracting highly-rated research faculty to Pennsylvania. These Starter Kits are modest but flexible grants that create an incentive for world-class researchers to relocate to the commonwealth's leading colleges, universities and academic medical centers.
- **Bricks & Mortar Grant Financing** – Covers activities designed to expand, remodel, renovate, alter or construct biomedical research facilities including, but not limited to, wet, dry and special function laboratories.

The Jonas Salk Legacy Fund

The Cost of Inaction

- Pennsylvania's national ranking for state National Institutes of Health funding has seen no improvement since 2004. Pennsylvania's ranking could decline without implementation of this program.
- Pennsylvania could lose ground to competitor states in attracting and growing businesses in the biosciences/life sciences sector.
- The IBM Global Competitiveness study identified the life sciences sector as one of the opportunity sectors to focus on. Consider this:
 - There is an indirect multiplier effect of 4.48 jobs for each direct job in the life sciences industry (source: PA BIO).
 - In Pennsylvania, there are significantly higher wages for bioscience workers versus their counterparts in the private sector - \$69,474 compared with \$38,055, respectively. Bioscience workers are earning nearly twice what other private sector workers earn, on average. (source: PA BIO)

2008-09 Budget Overview

Additional Initiatives to Support the Life Sciences and Biotech in PA

Supporting Emerging Life Science Companies

In addition to the benefits provided by the Jonas Salk Legacy Fund, the 2008-09 budget also redirects \$14.8 million of tobacco funds from the pharmaceutical benefits for the elderly to support emerging life science companies. This funding will be used to provide opportunities to turn research and development into viable companies and high-wage jobs.

- \$7.4 million for **Biotechnology Commercialization** which will provide additional capital for investment in private venture firms that extend financial resources to early stage start-ups and emerging life sciences companies.
- \$7.4 million for **Health Venture Investment** which will expand capacity for the three Life Sciences Greenhouses to invest in companies focused on the research, development and commercialization of cutting-edge therapies and medical technologies.

2008-09 Budget Overview

Transportation Funding

Act 44 of 2007

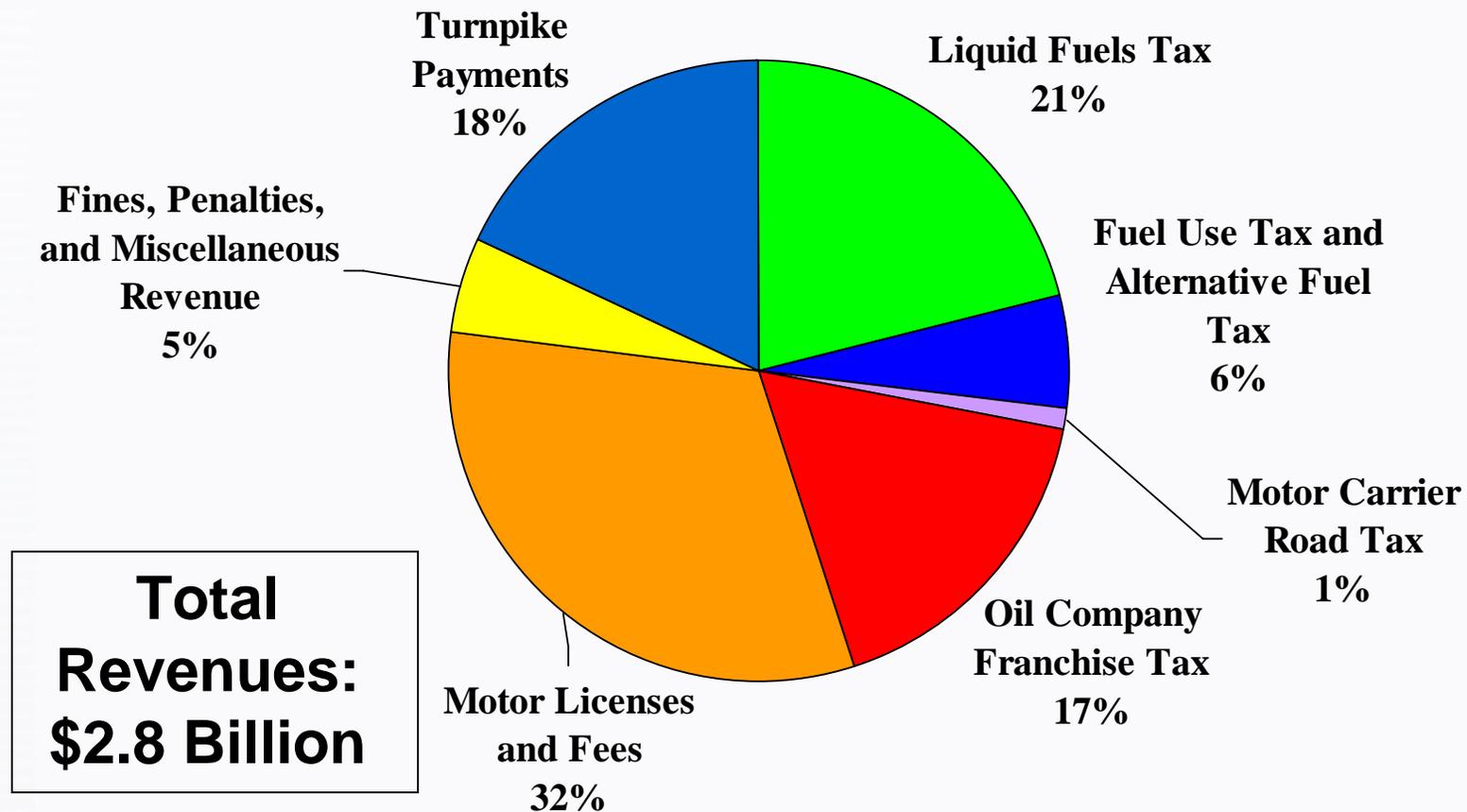
The administration, the Turnpike Commission and the legislature crafted a funding solution that protects the public and turnpike workers and generates an historic level of transportation funding.

- Act 44 – signed by Governor Rendell on July 18, 2007 – guarantees an average of nearly \$1 billion in new funding per year for highways, bridges and transit over the next ten years:
 - The Turnpike Commission will provide to the commonwealth a yearly average of **\$531 million** for highway and bridge repair and **\$414 million** for 73 transit systems providing more than 400 million rides annually in 67 counties.
 - The Turnpike Commission will:
 - issue \$5 billion in “Special Revenue Bonds” and \$4.1 billion in bonds against tolls on the main line of the Pennsylvania Turnpike;
 - increase tolls 25 percent in 2009 (and as much as required to meet its annual payments thereafter); and
 - toll I-80 beginning in 2011, also issuing bonds against those toll revenues.
 - Act 44 establishes a Public Transportation Trust Fund (PTTF) that:
 - combines old and new transit revenue sources; and
 - dedicates a portion of the state sales tax to transit funding.
 - The dedicated portion of the sales tax replaces the current General Fund appropriation that failed to grow with inflation over the years.

Act 44 of 2007

- Since the law's passage, several concerns have been raised about its approach to providing additional highway, bridge and transit funding:
 - The bipartisan Transportation Funding and Reform Commission recommended investing **\$965 million** in highways and bridges and **\$760 million** for transit annually, considerably higher amounts than provided under Act 44.
 - The Turnpike Commission's required payments to the commonwealth for transportation will drop to only \$450 million annually if the Federal Highway Administration does not approve the I-80 tolling plan. (Highways and bridges would receive \$200 million and public transit \$250 million.)
 - After the conversion of I-80 into a toll road, the Turnpike Commission will debit the commonwealth for the Turnpike Commission's estimate of the annual cost to operate and maintain the roadway (a current estimate of \$100 million, scheduled to grow at 4 percent per year).
 - While under the law, the Turnpike Commission is responsible for payment of debt service on the Special Revenue Bonds, commonwealth Motor License Fund revenues are pledged in case of payment default. The Turnpike Commission is responsible for reimbursing the Motor License Fund in this instance, but this provision could affect the balance of the Motor License Fund, potentially disrupting projects or requiring additional revenue for the fund.

2008-09 Motor License Fund Revenue Sources



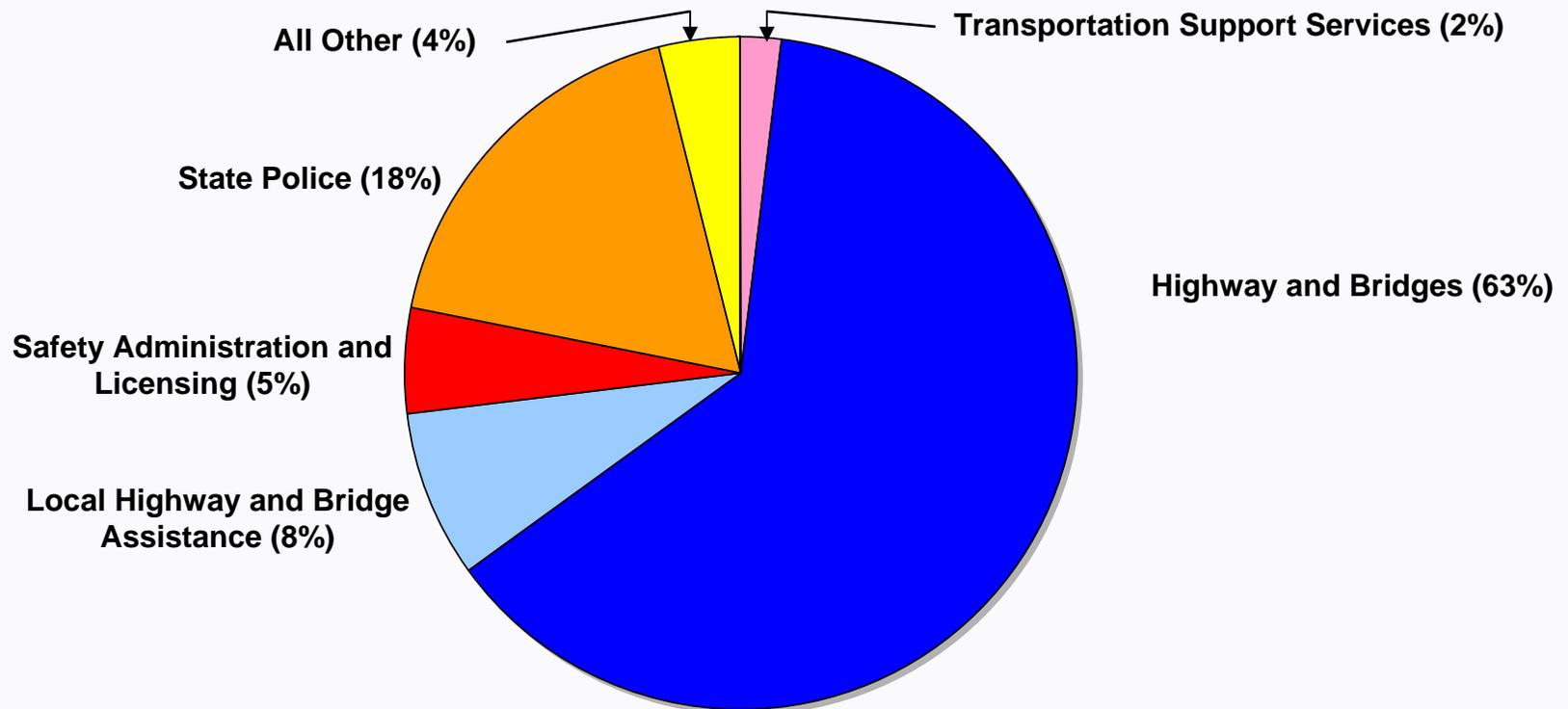
Motor License Fund Revenues

Liquid fuels taxes and motor licenses and fee revenues comprise 77 percent of Motor License Fund revenues. Turnpike payments comprise 18 percent of fund revenues. Fines, penalties and other miscellaneous revenue comprise the remaining 5 percent of fund revenues.

Major Revenue Sources	2008-09 (in thousands)
Liquid Fuels Taxes:	
Liquid Fuels Tax (\$0.12/gallon) (primarily gasoline)	\$ 590,500
Fuel Use Tax (\$0.12/gallon) (primarily diesel)	166,900
Alternative Fuel Tax	630
Motor Carriers Road Tax/International Fuel Tax Agreement (\$5 ID markers, \$0.12/gallon and OCFT element)	38,840
Oil Company Franchise Tax (\$0.195/gallon)	473,380
Total	\$1,270,250
Motor Licenses and Fees (\$36 registration, \$36 license renewal/ID)	\$894,650
Turnpike Payments	\$500,000
Fines, Penalties and Miscellaneous Revenue	\$140,850
Total Motor License Fund	\$2,805,750

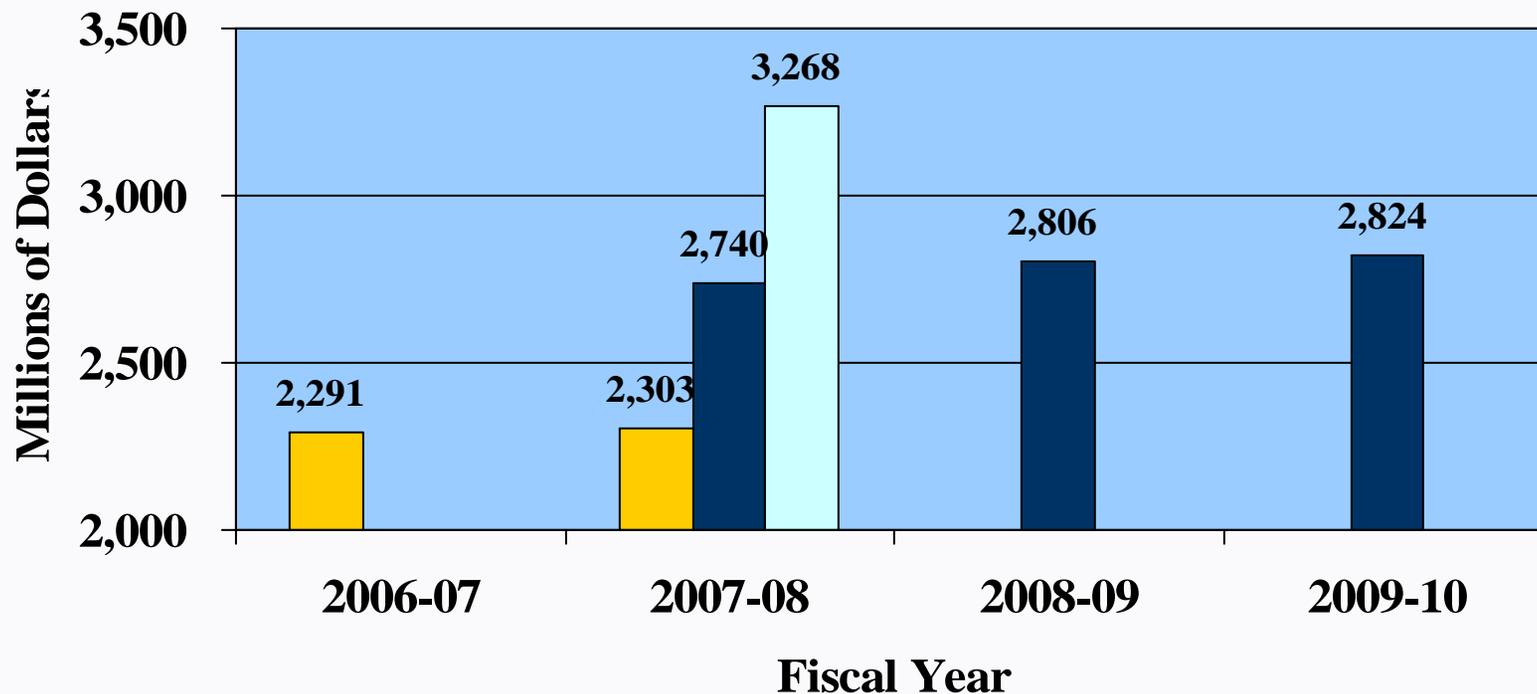
2008-09 Motor License Fund Expenditures

About 71 percent of all non-restricted Motor License Fund dollars will be used to build or maintain roads and bridges in the commonwealth. The remainder is used for highway law enforcement, licensing and safety and support activities. The 2008-09 budget also contains the Rebuilding Pennsylvania infrastructure initiative, which will provide nearly \$250 million in 2008-09 for some of Pennsylvania's most critical infrastructure needs, including bridges, dams, rail freight lines, small airports and flood-related projects.



Motor License Fund Revenues

Act 44 provided an additional \$450 million in 2007-08 and will provide an additional \$500 million in 2008-09, but the Transportation Funding and Reform Commission recommended a \$965 million annual increase. Even in the next two years, funding levels will remain significantly below the commission's recommendation.



■ Actual/Baseline
 ■ With Act 44 (2007)
 ■ TFRC Recommended

Distribution of New Funds

Expanded Highway and Bridge Program

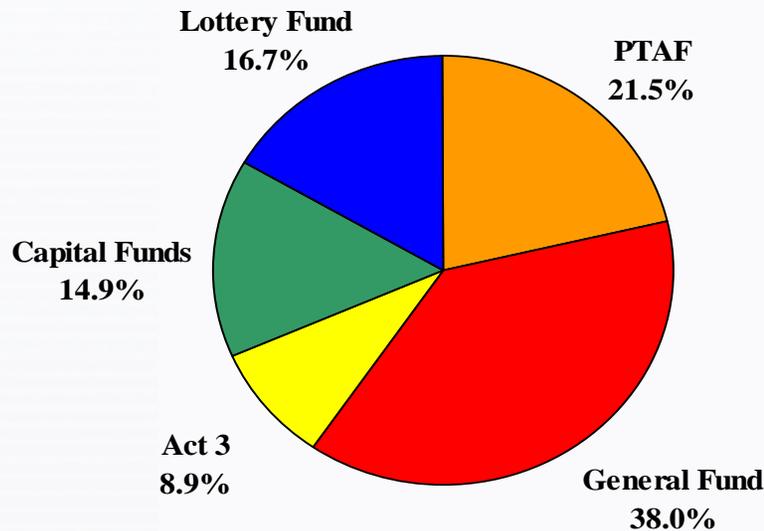
Of the new road and bridge funding, 15 percent is allocated at the discretion of the Transportation Secretary; \$5 million goes to counties, based on the surface area of county-owned bridges; \$30 million is distributed to municipalities by existing formula; and the balance is used for highways and bridges using formulas periodically revised by PennDOT and metropolitan and rural planning organizations.

How Funds Will Be Distributed	2008-09 Amount
Needs-Based Formulas – Developed among metropolitan and rural planning organizations and PennDOT	\$395.3 Million
Discretion of the Secretary of Transportation (15 percent)	\$69.7 Million
Municipal Roads and Bridges (fixed amount)	\$30.0 Million
Maintenance and Construction of County Bridges (fixed amount)	\$5.0 Million
<i>Total</i>	<i>\$500 Million</i>

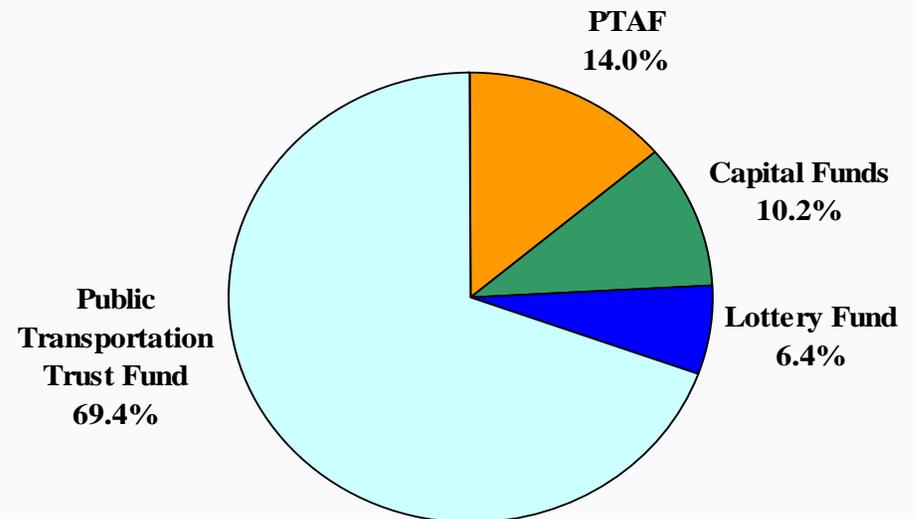
Pennsylvania Public Transit Funding

Pennsylvania invests more than \$840 million per year in capital and operating support for public transportation agencies throughout the state, leveraging an additional \$500 million in federal and local funding investment. The 2008-09 budget recommends \$1.2 billion in public transportation program funding.

2006-07: \$840 million

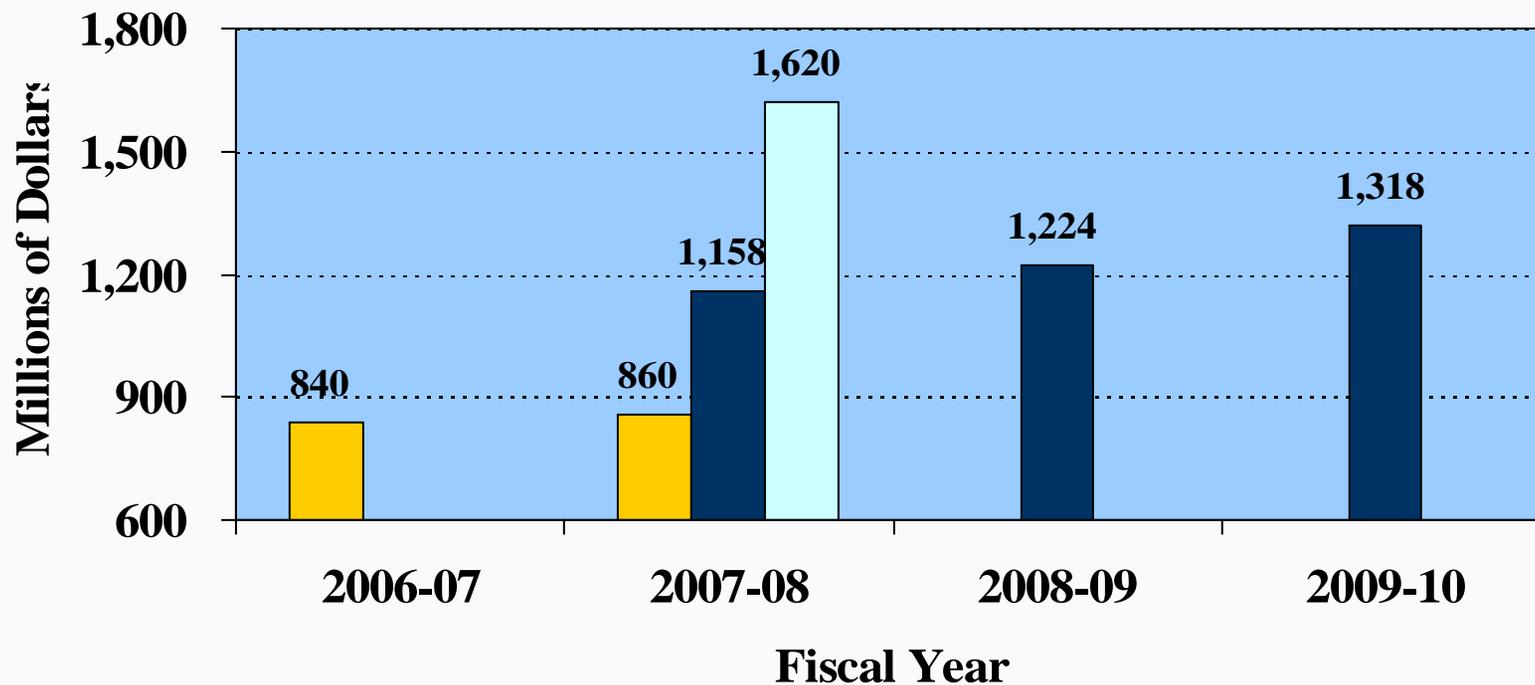


2008-09: \$1.2 billion



Public Transit Funding

Act 44 provides an additional \$350 million in 2008-09, rising to \$400 million in 2009-10, but the Transportation Funding and Reform Commission recommended a \$760 million annual increase. Even in the next two years, funding levels remain significantly below the commission's recommendation.



■ Actual/Baseline ■ With Act 44 (2007) ■ TFRC Recommended

Impact of New Transit Funding

- Pennsylvania transit agency operating deficits have been eliminated.
- Rural Transportation for Persons with Disabilities is being implemented in 16 remaining counties and will now be a *statewide program* (excluding Allegheny and Philadelphia).
- **SEPTA** plans to purchase 400 hybrid diesel electric vehicles and implement Smart Card fare collection technology.
- **Centre Area Transportation Authority** is restoring service.
- **York County Transportation Authority** is one of the systems evaluating additional service.
- Some of the additional assistance the commonwealth is providing includes:
 - supporting service studies at **Cambria County Transit Authority, Altoona Metro Transit, Lehigh and Northampton Transportation Authority, Butler Transit Authority, Port Authority of Allegheny County, Erie Metropolitan Transit Authority, Somerset County and Westmoreland County Transit Authority.**
 - Funding major bus replacements for **Area Transportation Authority of North Central Pennsylvania**, which covers six northern tier counties, CAT in Harrisburg, Centre Area Trans. Auth, Crawford Area Tran and Butler Transit.
 - providing marketing technical assistance to **County of Lebanon Transit Authority, Berks Area Reading Transportation Authority** and to **Chester County's Transportation Management Association.**
- Work is under way with Public Welfare and Aging on the human services transportation study required by Act 44.
- Systems with more than \$5M in subsidy are studying the potential for private contracting and will provide reports as required by Act 44.

Act 44 Implementation

- **The Turnpike Commission is pursuing the tolling of I-80 and has:**
 - applied for tolling authority under FHWA *Interstate System Reconstruction and Rehabilitation Pilot Program* (10/13/2007);
 - executed the I-80 lease and funding agreement (10/14/2007); and
 - borrowed \$532 million to fund first three commonwealth payments on 10/25/2007; \$450 million more will be borrowed by 5/1/2008.
 - The Turnpike Commission is studying I-80's traffic and revenue potential, evaluating toll plaza locations, considering operational improvements, and soliciting public input in preparation for submission of further documentation to FHWA by summer 2008.
- **The commonwealth is receiving new transportation funding.**
 - In August 2007 the commonwealth received the Turnpike Commission's initial \$62.5 million payment.
 - In October 2007, it received a second quarter \$229.2 million payment.
 - The third \$229.2 million payment was received on January 30, 2008. A fourth quarter final \$229.2 million payment will complete the Turnpike's payment obligation for 2007-08.
 - Penn DOT is now working with planning organizations statewide to select new highway and bridge projects for funding.

Turnpike Concession Solicitation

- **The administration is reconsidering the policy alternative of leasing the Pennsylvania Turnpike.**
 - Morgan Stanley advised the commonwealth that a long-term lease could fund the entire estimated \$1.725 billion in annual highway and transit needs, significantly more funding than provided by Act 44.
 - A lease could be structured to provide a large upfront payment, to reduce the credit risk implicit in Act 44 and fund more projects.
- **The administration is pursuing a toll road concession agreement.**
 - Thirty-four firms constituting 14 teams responded to request for qualifications; teams are being finalized and considered for qualification to bid, while conducting due diligence to arrive at appropriate valuations.
 - Commonwealth financial advisors expect to review numerous bids; the Governor will approach General Assembly with a binding bid.
 - Public-Private Partnership legislation and a concession agreement would place the roadway under Penn DOT's control and pay off any existing debt secured by tolls, requiring changes to Act 44, which relies on main toll line revenues for annual commonwealth payments.

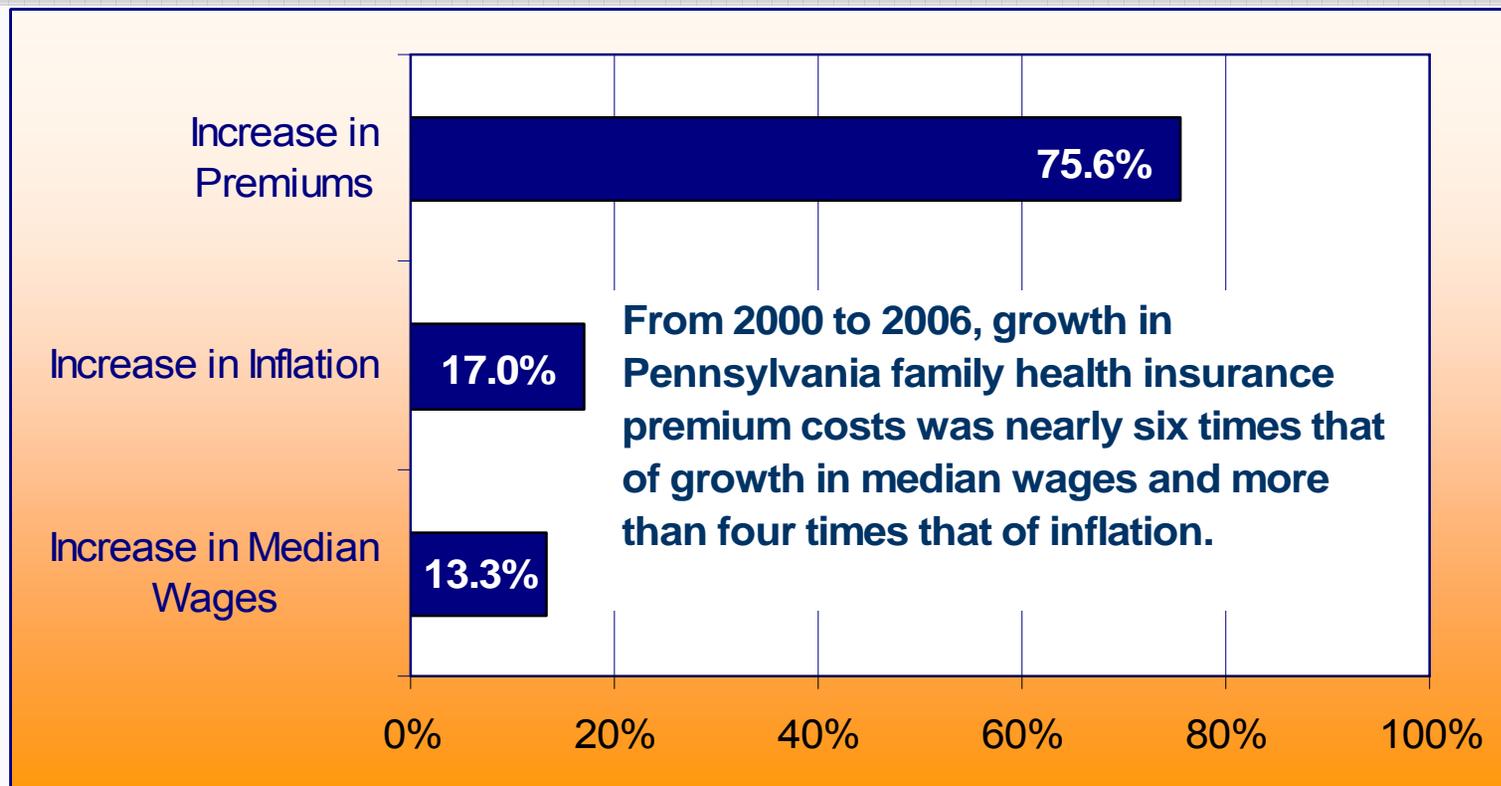
2008-09 Budget Overview

Prescription for Pennsylvania

Prescription for Pennsylvania

The Need for Action

Pennsylvania businesses suffer a competitive disadvantage when they compete in the global marketplace against companies from countries where health care costs less and is universally available. Pennsylvania spends 11 percent more per person on health care than the U.S. average, and our health care costs are increasing twice as fast as average wages.



Prescription for Pennsylvania *The Basics*

In January 2007, Governor Rendell unveiled a bold, sweeping “Prescription for Pennsylvania” that will increase access to affordable health care coverage for all Pennsylvanians, improve the quality of care delivered throughout the commonwealth and help bring health care costs under control for employers and employees.

Prescription for Pennsylvania will:

- ✓ Ensure that all eligible uninsured adults have access to affordable health care coverage through the new Cover All Pennsylvanians program;
- ✓ Expand access to cost-effective health care and health care professionals;
- ✓ Remove unnecessary restrictions that prevent licensed health care providers from practicing to the fullest extent of their education and training;
- ✓ Improve the quality of care of those suffering from chronic conditions to avoid unnecessary hospitalization;
- ✓ Eliminate health-care-associated infections;
- ✓ Make all Pennsylvania workplaces, restaurants and bars smoke free; and
- ✓ Reward consumers for healthy behavior and promote wellness education and sound nutrition in schools.

Prescription for Pennsylvania Initiatives

In January 2007, Governor Rendell unveiled a bold, sweeping “Prescription for Pennsylvania” to increase access to affordable health care coverage for all Pennsylvanians, improve the quality of care delivered throughout the commonwealth and help bring health care costs under control for employers and employees. The 2008-09 budget includes a total of \$25.1 million in state and federal funds to implement several key components of the Prescription for Pennsylvania plan, including new funding for the following three initiatives.

New Prescription for Pennsylvania Initiatives

- **\$5.0 million** – to design and begin implementation of an information system that will enable health care providers to improve coordination of care.
- **\$1.8 million** - to increase access to primary medical and dental care in underserved areas through a new nurse loan repayment program, an enhanced primary care practitioner loan repayment program and an expanded community challenge grant program.
- **\$100,000** – to assess the opportunities for increasing the availability of hospice and palliative care services.

Prescription for Pennsylvania Initiatives (cont'd)

Ongoing Prescription for Pennsylvania Initiatives

- **\$6.5 million** – to provide financial incentives for local education agencies to increase the availability of nutritious foods for students.
 - *Status: More than 500 local education agencies are currently participating in the School Nutrition Incentive program.*
- **\$4.6 million** – to develop standardized identification and reporting of health-care-associated infections by hospitals and provide training in infection-control best practices.
 - *Status: The Governor's Office of Health Care Reform is coordinating the activities of the Department of Health and the Patient Safety Authority to implement the provisions of Act 52 of 2007.*
- **\$2.9 million** – to increase access to primary health care in underserved rural areas.
 - *Status: Providers have been selected to establish a new community health center to serve the Gettysburg area and two mobile health clinics to serve Forest, Venango and Greene counties.*
- **\$2.2 million** – to implement a comprehensive, evidence-based chronic-care management model for persons with chronic disease.
 - *Status: The Chronic Care Management, Reimbursement and Cost Containment Commission presented the Governor with a strategic plan to improve the delivery of health care to Pennsylvanians who require chronic-care.*

Prescription for Pennsylvania Initiatives (cont'd)

Ongoing Prescription for Pennsylvania Initiatives

- **\$700,000** – to manage and coordinate Prescription for Pennsylvania implementation.
- **\$515,000** – to enhance the delivery of health messages through an integrated and coordinated approach to health literacy.
- **\$500,000** – to increase the number of health professionals equipped to address the needs of racial and ethnic minorities.
- **\$266,000** – to expand premium rate review authority to all insurers providing coverage in the small employer market.
- **\$30,000** – to assist elementary school teachers with integrating healthy living concepts into lesson plans.

Prescription for Pennsylvania *Additional Reforms*

Two significant pieces of legislation have been enacted, and two executive orders have been issued - all designed to improve the quality, accessibility and affordability of health care in Pennsylvania. Additional legislation is being pursued, including individual and small group insurance reform.

Enacted Legislation

- Scope of Practice – Allows certified registered nurse practitioners, certified nurse midwives, physicians’ assistants and dental hygienists to practice to the full extent of their education and training.
- Health-Care-Associated Infections – Requires infection-prevention procedures and reporting of health-care-associated infections by hospitals and nursing homes.

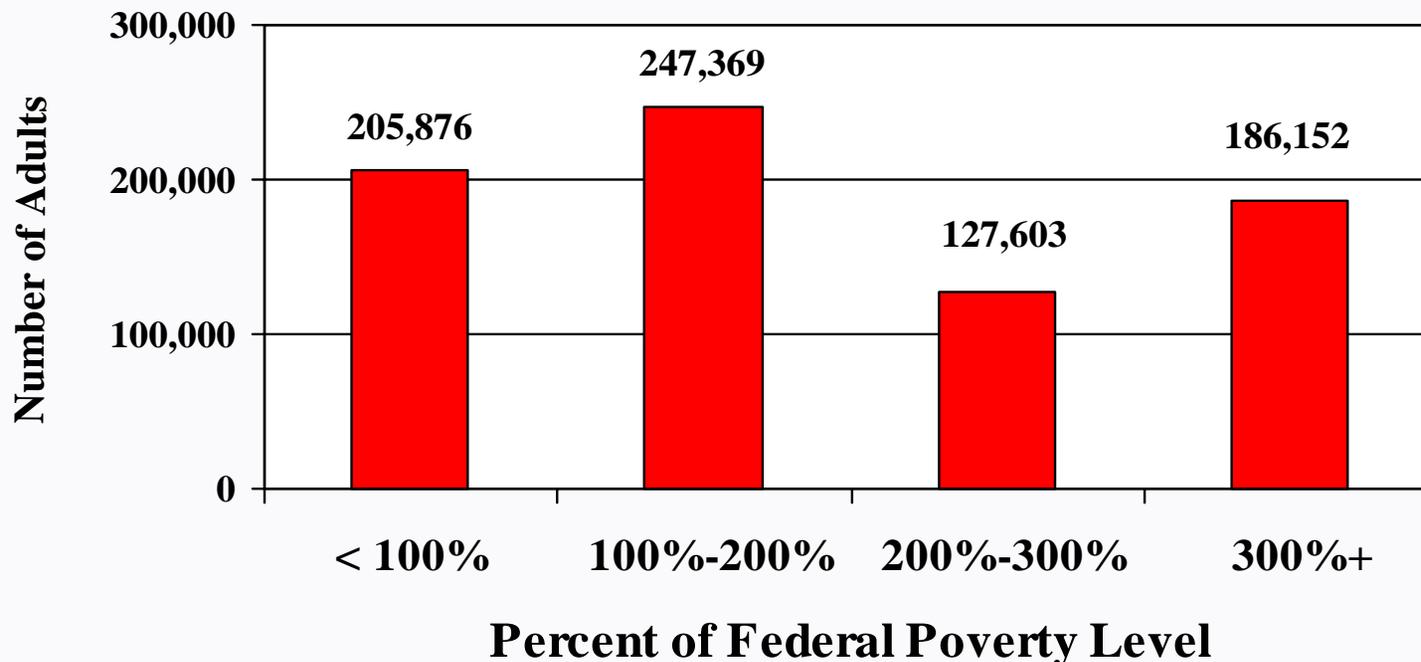
Executive Orders

- Chronic Care Management, Reimbursement and Cost Reduction Commission – Will design the informational, technological and reimbursement infrastructure needed to promote quality outcomes and cost-effective treatments for patients with chronic disease.
- Office of Health Equity – Will work with academic institutions, community-based organizations, state agencies, health partners, providers and others in the public and private sectors to eliminate health disparities in Pennsylvania.

Pennsylvania's Uninsured Adults

Although 92 percent of Pennsylvanians have some type of health care coverage, a recent survey commissioned by the Insurance Department determined that 767,000 adults in Pennsylvania remain uninsured. Of the 767,000 uninsured adults, more than 71 percent are working. Of those working, nearly 62 percent are employed full-time and nearly 47 percent work for small employers. Overall, more than 75 percent of the 767,000 uninsured adults are below 300 percent of the federal poverty level (\$62,000 for a family of four).

Uninsured Adults



Pennsylvania Supports ‘Cover All Pennsylvanians’



Cover All Pennsylvanians *Who is Eligible?*

Cover All Pennsylvanians (CAP), a component of Prescription for Pennsylvania, will offer an affordable basic health care plan for eligible uninsured adults and small businesses. Uninsured adults earning up to 300 percent of the federal poverty level and low-wage small employers will be subsidized with state and federal funds. Uninsured adults who earn more than 300 percent of the poverty level will be able to purchase coverage through CAP at the same affordable premium rate that the commonwealth will pay.

Individuals with family income:

- less than 200 percent of the poverty level who have been uninsured for at least 90 days prior to enrollment; and
- 200 percent of the poverty level or above who have been uninsured for at least 180 days prior to enrollment.

Small low-wage businesses with:

- 2-50 employees;
- an average salary for all workers less than the average salary of all Pennsylvania workers; and
- no employee health insurance benefits for at least 180 days prior to enrollment.

Cover All Pennsylvanians *What Will It Cost?*

Cover All Pennsylvanians (CAP), a component of Prescription for Pennsylvania, will offer an affordable basic health care plan for eligible uninsured adults and small businesses. Uninsured adults earning up to 300 percent of the federal poverty level and low-wage small employers will be subsidized with state and federal funds. Uninsured adults who earn more than 300 percent of the poverty level will be able to purchase coverage through CAP at the same affordable premium rate that the commonwealth will pay.

Individuals with family income:

- less than 150 percent of the poverty level will pay \$0 a month.
- between 150 and 200 percent of the poverty level will pay \$40 a month.
- between 200 and 300 percent of the poverty level will pay \$60 a month.
- 300 percent of the poverty level or above may purchase at-cost for \$286 a month.

Small Businesses:

- Employers will pay \$130 a month for at least 75 percent of their employees.
- Employees will pay \$70 a month.
- Employees whose income is below 300 percent of the poverty level will pay monthly premiums at the individual enrollee rates, based on family incomes.

All enrollees will pay co-payments for selected services.

Cover All Pennsylvanians

How Will It Work?

Service Delivery:

- Managed care plans will be selected through a competitive bid process.
- Pennsylvania's Blue Cross/Blue Shield plans will be required to bid.
- Successful bidders will be paid on a per enrollee basis, assuming 100 percent of the financial risk.
- The benefit package will include preventive care, physician visits, hospitalization, emergency services and behavioral health care. Pharmacy services will be provided through a pharmacy benefits manager.

Small Businesses:

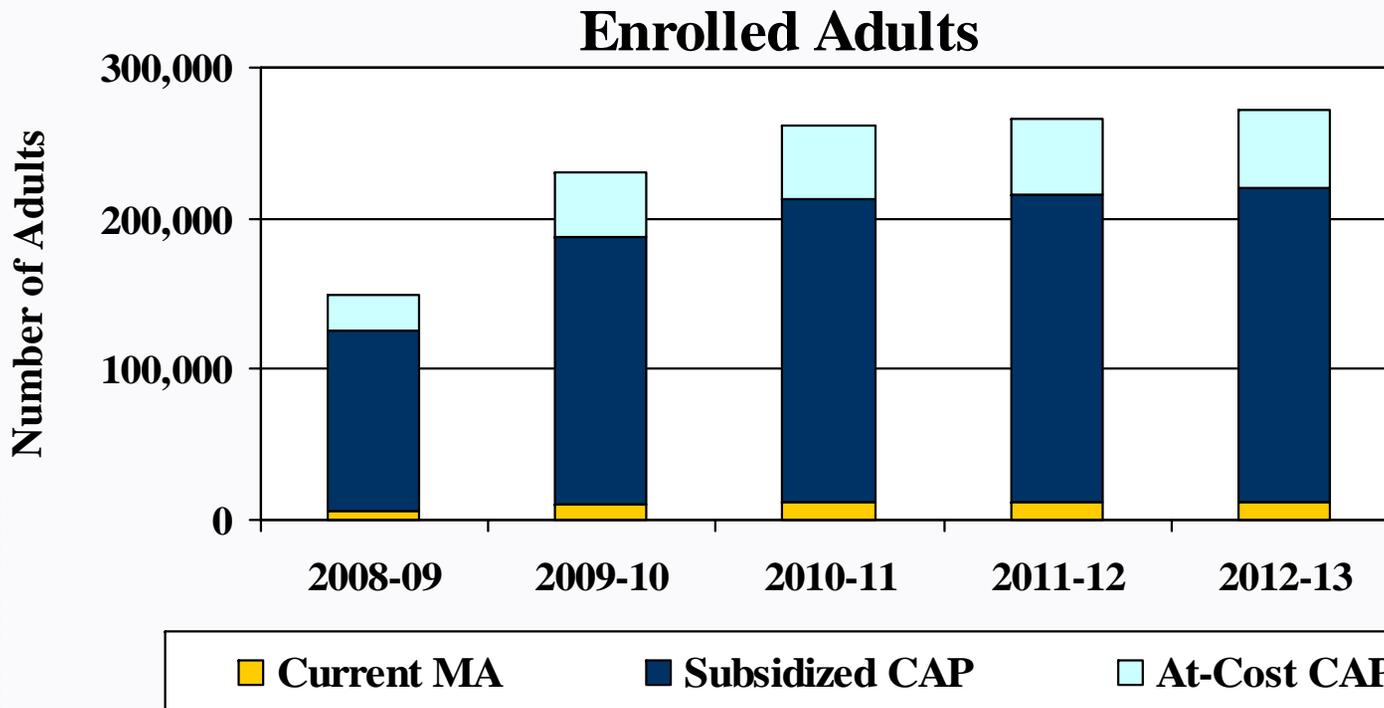
- Will apply to the commonwealth to enroll in Cover All Pennsylvanians (CAP).
- Once determined eligible, will select which CAP managed care plan(s) will be offered to employees.
- Qualifying employees will enroll in CAP through employer.
- Commonwealth subsidizes employer's premium costs.
- Employer subsidizes participating employee's premium costs.
- Employee and the commonwealth share in the remaining premium costs based on employee family income.

Individuals:

- Will apply directly to a participating CAP managed care plan.
- Once determined eligible, will begin receiving services.
- Individual enrollees and the commonwealth will share premium costs based on family income.

Cover All Pennsylvania *Projected Program Growth*

Through extensive outreach efforts, Cover All Pennsylvanians (CAP) expects to enroll nearly 149,500 adults in 2008-09, the initial year of the program, growing to an enrollment of nearly 272,000 in 2011-12. While the majority of the uninsured are projected to enroll in the subsidized component of CAP, including those transferring from the existing adultBasic program, some will be eligible instead for the commonwealth's existing Medical Assistance program. Others will purchase health care coverage through CAP at the same affordable premium rate that the commonwealth will pay.



Cover All Pennsylvanians *Revenue Sources*

Cover All Pennsylvanians will cost a total of approximately \$479.5 million in 2008-09. The Governor's plan proposes to cover these costs through a variety of revenue sources, including both existing and new, totaling \$556.2 million in 2008-09. The excess revenue generated in 2008-09 will be used to fund future program costs as enrollment increases.

Cover All Pennsylvanians Funding Sources

- **State Funds**
 - Existing state funds used to support the more limited adultBasic program;
 - Small increase in the cigarette tax;
 - New tax on other tobacco products, including smokeless tobacco;
 - Gradual redirection of state-provided uncompensated care payments, beginning in 2009-10; and
 - Use of available balances from the state's Health Care Provider Retention Account, beginning in 2011-12.
- **Federal Medicaid Matching Funds**
- **Enrollee Cost Sharing**
- **Small Employer Cost Sharing**

Cover All Pennsylvanians *Revenue Sources*

The health care premiums and the administration costs of Cover All Pennsylvanians will total approximately \$479.5 million in 2008-09. These costs will be covered by a variety of revenues sources, including both existing and new state funds. The revenue balance generated in 2008-09 will be used to fund future year enrollment growth.

Out-year funding includes a gradual redirection of state-provided uncompensated care payments, beginning in 2009-10, and the use of available balances from the state's Health Care Provider Retention Account, beginning in 2011-12.

2008-09 Funding Sources	
Existing State Funds - Tobacco Settlement Fund	\$49.5 million
Existing State Funds - Community Health Reinvestment	\$121.9 million
Cigarette Tax Increase	\$66.1 million
New Tax on Other Tobacco Products	\$48.0 million
Federal Funds – Medicaid	\$191.2 million
Cost Sharing – Enrollees	\$77.5 million
Cost Sharing – Small Employers	\$2.0 million
Total Revenue	\$556.2 million

Pennsylvania's Medical Malpractice Reforms Are Working

Over the last five years, medical malpractice reforms implemented by the current and prior administrations, the General Assembly and the Supreme Court have begun to yield substantial improvements in Pennsylvania's medical malpractice climate.

- The number of practicing physicians is stable; there has not been an exodus of doctors from Pennsylvania.
- Insurance rates are decreasing for the first layer of insurance that doctors are required to carry – the coverage administered by private carriers. The two largest insurers held their rates steady in 2006 and 2007 and reduced rates in 2008.
- Since April 2002, 57 new entities are writing med-mal insurance in Pennsylvania, providing new competition in the insurance marketplace.
- Assessments are also decreasing for the second layer of med-mal coverage, which is provided through the state's Medical Care Availability and Reduction of Error (Mcare) Fund. For the fourth consecutive year, the total dollar amount of med-mal claims paid by the Mcare Fund is down.
- Statewide medical malpractice claims were 38 percent lower in 2006 than the base period of 2000-2002.

Pennsylvania's Medical Malpractice Reforms Are Working

Since 2003, the commonwealth has provided almost \$1 billion in Mcare payment relief which has reduced physicians' malpractice expenses, helping to ensure continuing access to quality health care for Pennsylvanians.

- The creation of the Mcare Abatement Program in 2003 was one of the successful reforms that helped spur the dramatic improvement in the medical malpractice market.
- The program reduces or eliminates the amounts that physicians, midwives, podiatrists and nursing homes pay in Mcare assessments. It is funded through a 25-cent-per-pack share of the cigarette tax paid into the state's Health Care Provider Retention Account (HCPRA).
- Since 2003, health care providers have received nearly \$1 billion in Mcare payment relief as a result of the abatement program.
- As a result of sharply reduced medical malpractice claims and the resulting reduction in Mcare assessment rates, the Health Care Provider Retention Account (HCPRA) currently has a \$400 million balance.
- Legislative authorization to continue the abatement program expired in December 2007.

Continuing the Commitment to Medical Malpractice Reform and Assuring Access to Health Care for All Pennsylvanians

As a result of dramatic improvements in the medical malpractice insurance market since 2002, the commonwealth can support a multi-year Mcare abatement for physicians and provide access to quality health care for all Pennsylvanians.

- The commonwealth is prepared to take two important steps to support continuing improvements in the medical malpractice insurance climate and to improve further health care access for Pennsylvanians:
- Governor Rendell supports a multi-year renewal of the abatement program.
 - Instead of extending the Mcare abatement by just one year at a time, the Governor advocates greater predictability for health care providers through a multi-year renewal.
- The Governor also supports legislation to enact Cover All Pennsylvanians in tandem with renewal of the Mcare abatement, using unspent HCPRA balances not needed for abatements to help fund Cover All Pennsylvanians
- Implementation of the remaining elements of the Prescription for Pennsylvania including Cover All Pennsylvanians and continuation of the successful strategy to control medical malpractice costs will make Pennsylvania a national leader in addressing the issues of health care cost, funding and quality.

Prescription for Pennsylvania

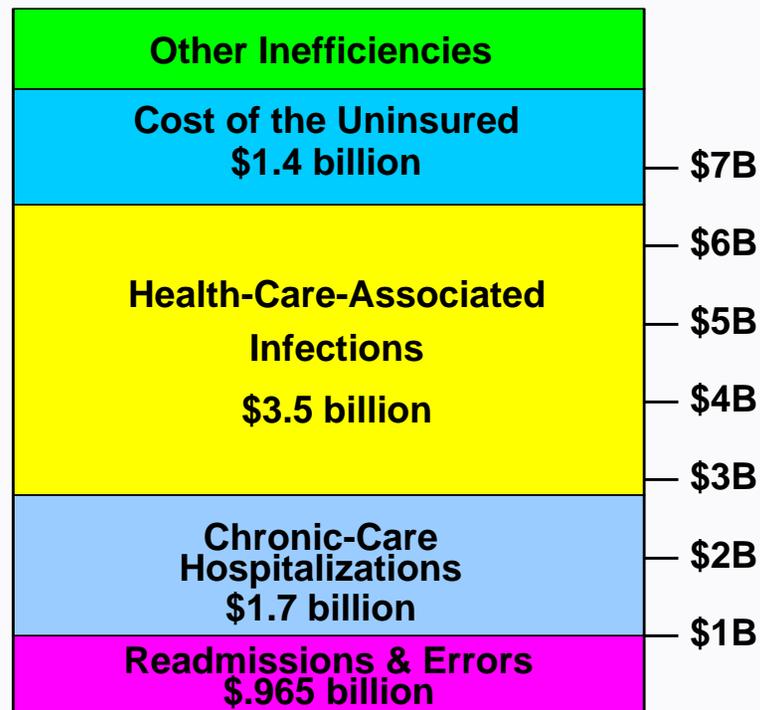
Additional Legislative and Regulatory Reforms Needed

In addition to Cover All Pennsylvanians, the commonwealth needs to enact other important elements of Prescription for Pennsylvania, including individuals and small group insurance reform, a smoking ban in public places and alternatives to unnecessary emergency room care.

- **Individual and Small Group Insurance Reform** – Strengthen state oversight of health insurance companies and health maintenance organizations to:
 - Protect individuals and small employers from volatile premium increases;
 - Require insurers to establish a standard basic health care package for individuals and small business; and
 - Prohibit insurers from driving up the cost of insurance based on narrowly-defined demographic characteristics.
- **Public Smoking Ban** – Prohibit indoor smoking in workplaces, restaurants and bars.
- **Alternatives to Unnecessary Emergency Room Care** – Require hospitals to immediately screen and redirect patients who go to emergency rooms but do not need emergency room care to more appropriate health care settings within the hospital.

Prescription for Pennsylvania *The Cost of Inaction*

Pennsylvania's businesses, consumers and taxpayers pay at least \$7.6 billion a year for unnecessary and avoidable health care costs. Inaction would not only continue these unnecessary and avoidable costs, it would jeopardize the health and safety of our residents and perhaps even weaken the commonwealth's economic competitiveness.



2008-09 Budget Overview

Caring for Pennsylvanians in Need

The Commonwealth Provides Vital Services to Children, Seniors and Other Pennsylvanians in Need

Program	People Served 2007-08*	People Served 2008-09*
Medical Assistance – Health Care for Low-Income Pennsylvanians	1,915,240	1,949,270
PACE Plus Medicare (Rx Assistance for Older Pennsylvanians)	383,305	407,575
Protection for Children at Risk due to Abuse, Neglect and Delinquency	283,502	286,801
Child Care for Low-Income Families	232,025	234,633
Cash Assistance (TANF, General Assistance and State Blind Pension)	228,400	226,690
Children’s Health Insurance Program	167,898	185,764
Uninsured Adults**	49,809	144,167
Community Mental Retardation Services	49,728	51,598
Autism Services	264	664

**Some people may receive services in more than one category.*

***2007-08 adultBasic; 2008-09 Cover All Pennsylvanians.*

Caring for All Pennsylvanians

Changes in People Served in 2008-09 (estimated)

Medical Assistance	34,030
<i>Disabled People</i>	2,011
<i>Elderly People</i>	9,671
<i>Children</i>	23,388
<i>Chronically Ill Adults</i>	-408
<i>Other Adults</i>	-632
Abused and Neglected Children	3,299
Low-Income Children in Child Care	2,608
Community Mental Retardation	1,870
Autism Program	400
Children's Health Insurance Program (CHIP)	17,866
<i>(Including Cover All Kids)</i>	
Uninsured Adults <i>(Including Cover All Pennsylvanians)</i> . .	94,358
PACE Plus Medicare	24,270

Department of Public Welfare Cost-Containment Initiatives

Building upon the reforms to the commonwealth's safety net initiated in the 2005-06 enacted budget, the 2008-09 budget includes additional measures to increase the efficiency and integrity of the Medical Assistance program. Combined, these initiatives are estimated to result in savings of \$681.5 million in 2008-09, freeing up these funds to continue programs that serve Pennsylvanians in need.

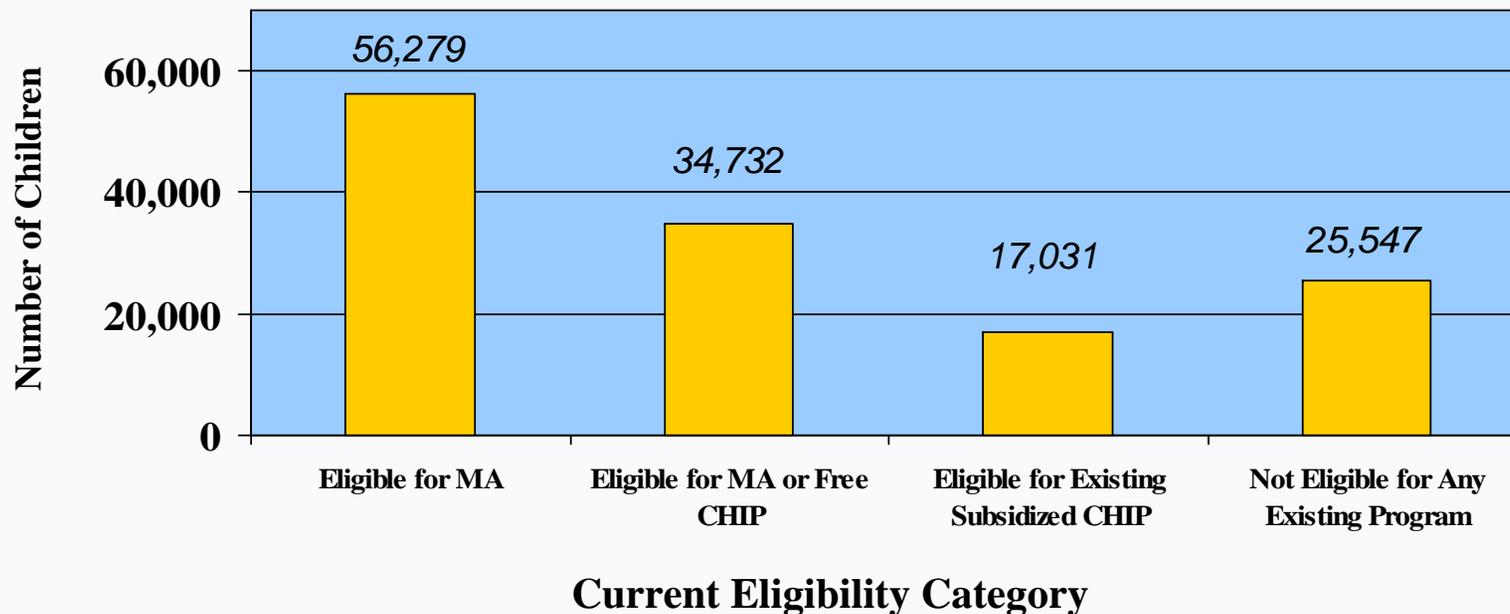
Dollars in millions

Selected Initiatives	To Date	New in 2008-09
Improve Managed Care: HealthChoices Plus		\$ 132.4
Improve Insurance for Autistic Children		\$ 16.4
Reduce Administrative Cost and Enhance Efficiency	\$ 206.5	\$ 3.9
Increase Third-Party Liability Collections and Decrease Fraud and Abuse	\$ 41.3	\$ 9.7
Implement Preferred Drug List/Other Pharmaceutical Efficiencies	\$ 111.4	\$ 11.9
Redesign Fee-for-Service Benefit Package	\$ 24.2	\$ 1.1
Implement Other Initiatives (Academic Medical Centers, etc.)	\$ 118.2	\$ 4.5
Total	\$ 501.6	\$ 179.9

Cover All Kids

Although Pennsylvania has one of the highest rates of health care coverage for children in the country, a recent survey commissioned by the Insurance Department determined that 133,589 children in Pennsylvania remain uninsured. Some of these children already qualify for publicly funded health care coverage, including the Medical Assistance (MA) program and the Children's Health Insurance program, but their parents may not know they qualify. Others are children of working parents with too much income to qualify for public programs but not enough to afford private health insurance.

Pennsylvania's Uninsured Children



Cover All Kids

Cover All Kids was implemented in March 2007 and guarantees access to affordable, comprehensive health care coverage for all uninsured children in Pennsylvania. In 2008-09, enrollment in the Children's Health Insurance Program (CHIP) is projected to reach nearly 185,750 children, an increase of more than 17,850 children, at a cost of \$361.7 million in state and federal funds.

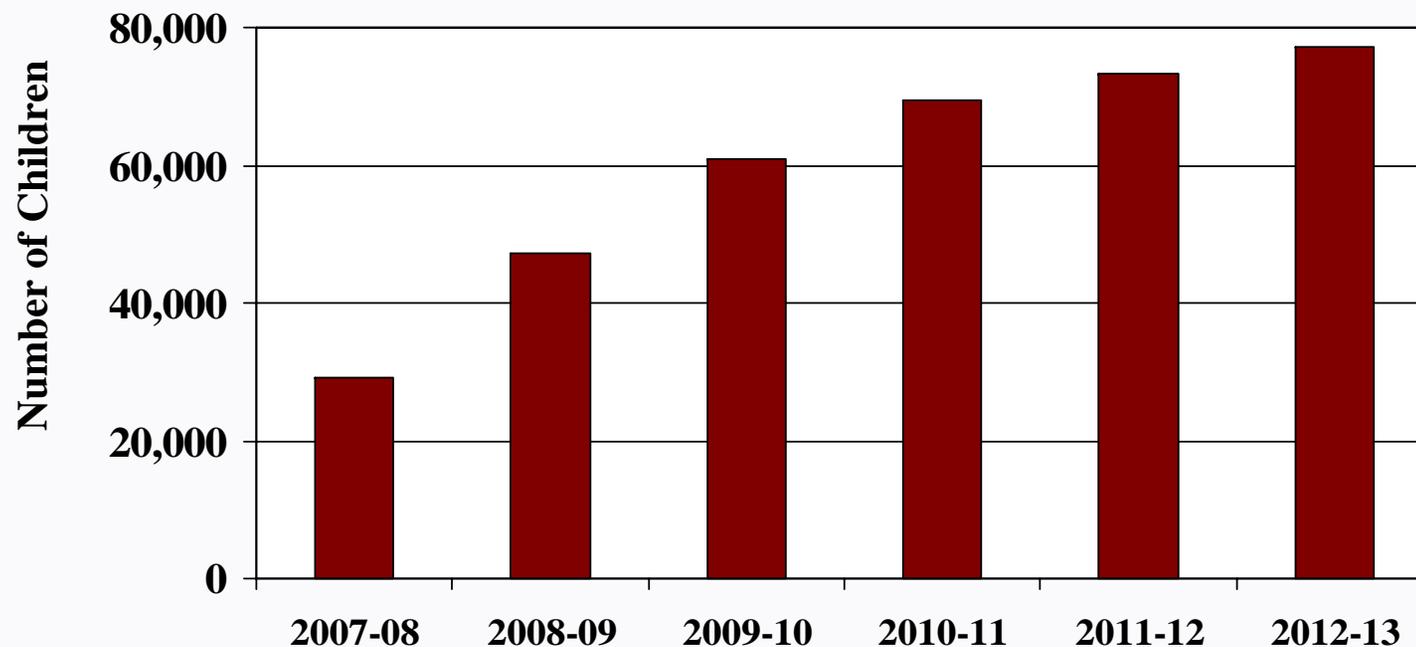
Cover All Kids:

- Provides comprehensive health care coverage, including visits to doctors, hospitalization, prescription drugs, mental health and substance abuse services, vision, dental and home health care.
- Subsidizes coverage for children in families whose annual income does not exceed 300 percent of the federal poverty level (\$62,000 for a family of four). Family premiums will range, on average, between \$41 and \$65 per month per child.
- Offers at-cost coverage for children in families whose income exceeds 300 percent of poverty (on average, \$163 per month per child).

Cover All Kids *Projected Program Growth*

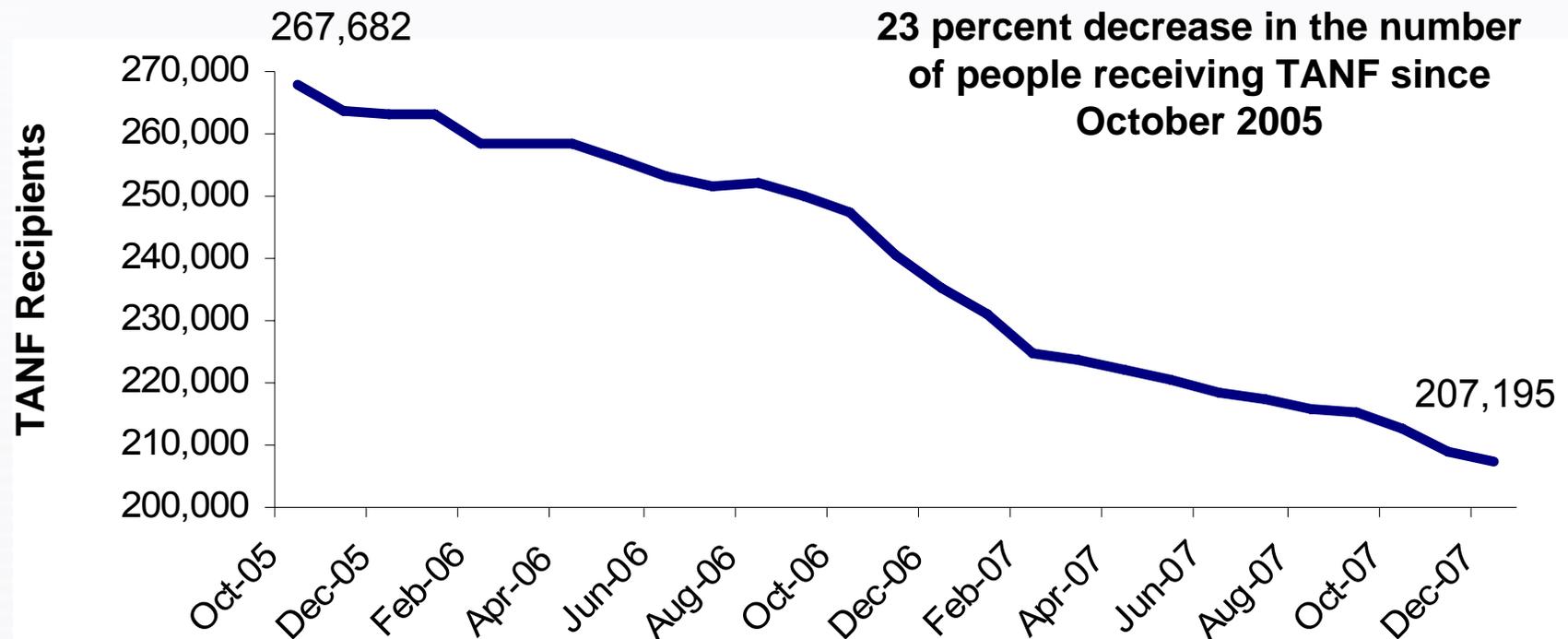
Cover All Kids was implemented in March 2007 at which time enrollment in the Children's Health Insurance Program (CHIP) was 156,000 children. Enrollment in CHIP is projected to reach nearly 185,750 children in 2008-09, growing to 215,800 in 2012-13.

Children's Health Insurance Program Additional Children Served Since 2006-07



TANF Caseload Declines

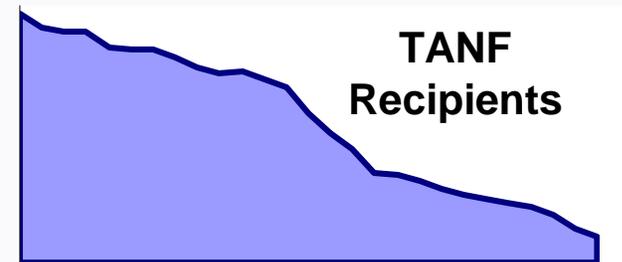
Fewer Pennsylvanians are receiving cash assistance than any time since 1961. As of December 2007, there has been a 23 percent decrease in the number of people receiving Temporary Assistance for Needy Families (TANF) benefits since October 2005. The 2008-09 budget continues this trend, projecting an additional 2 percent decline in the TANF caseload.



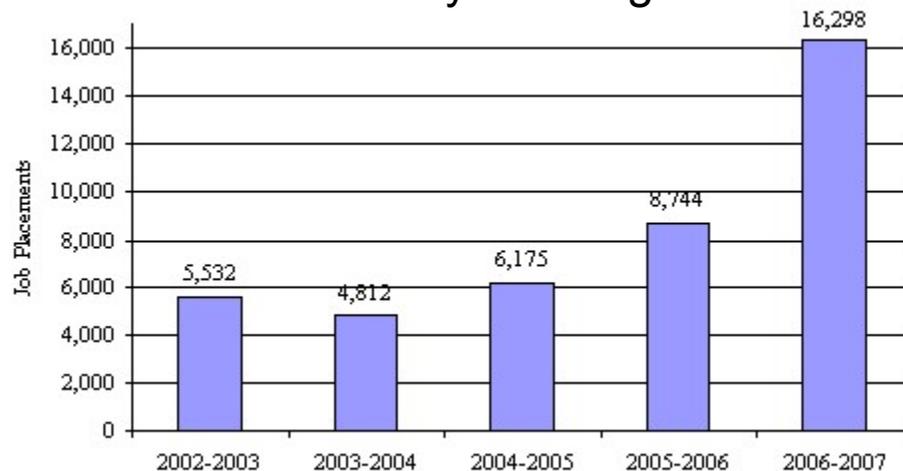
Lower TANF Caseloads Benefit All

Fewer Pennsylvanians are receiving cash assistance than any time since 1961. As of December 2007, there has been a 23 percent decrease in the number of people receiving Temporary Assistance for Needy Families (TANF) benefits since October 2005. The 2008-09 budget continues this trend, projecting an additional 2 percent decline in the TANF caseload.

More people are working – job placements by employment and training contractors are on the rise



Job Placements by Training Vendors

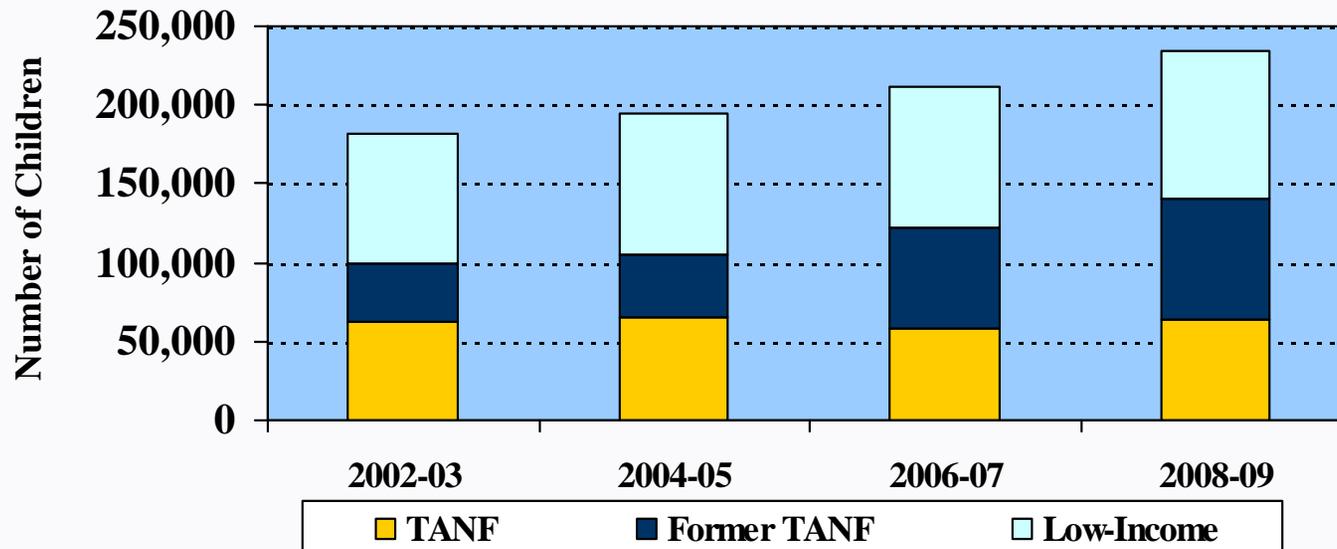


There are 60,500 fewer persons receiving cash assistance today than in October 2005. The reduction in the TANF caseload saved taxpayers more than \$117 million.

Subsidized Child Care Services

*Improving the quality and availability of early childhood programs has been a priority for the Rendell administration, and affordable child care is an essential component of the commonwealth's efforts to move families from welfare to work. **Since 2002-03**, the number of children participating in subsidized child care has grown **from 182,102 to a projected 234,633 – an increase of 29 percent** – and the quality of child care has increased significantly through the Keystone STARS program. The budget includes an increase of \$48.4 million to ensure that quality school-readiness services continue to be available through the child care system in 2008-09.*

Pennsylvania Children in Subsidized Child Care

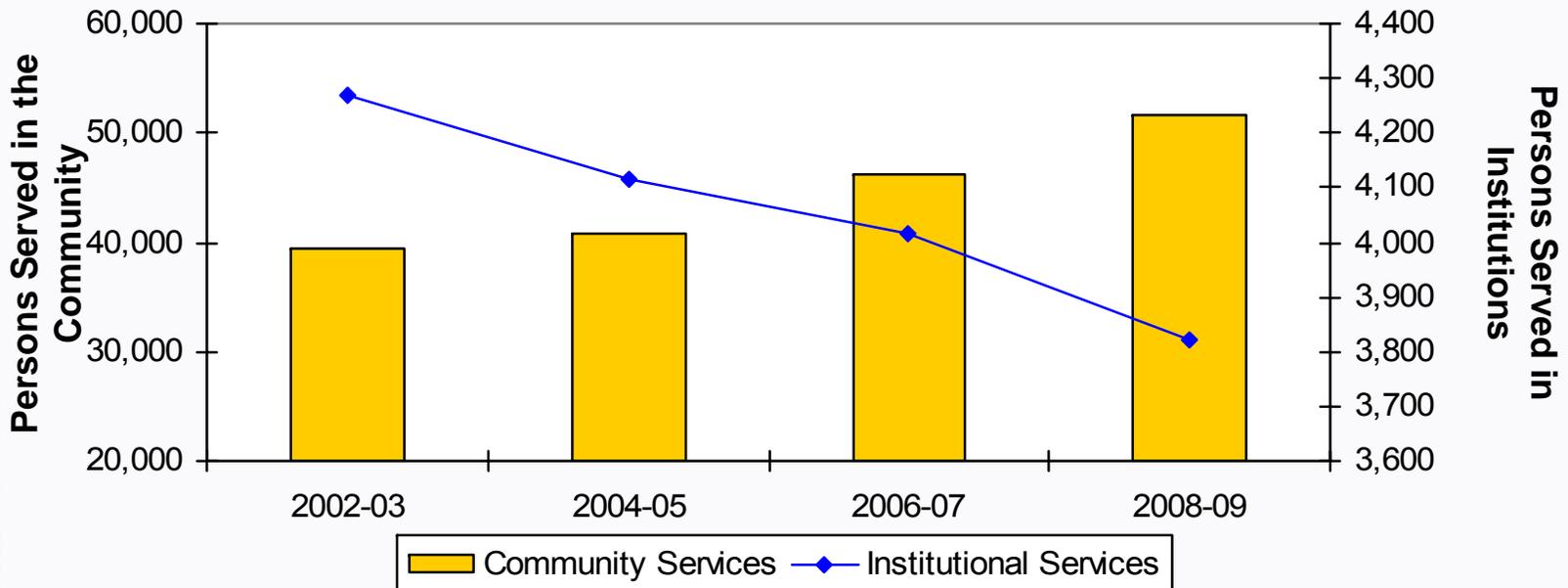


TANF = Temporary Assistance for Needy Families

Community Mental Retardation Services

Under the Rendell Administration, the number of people receiving home and community-based mental retardation services has increased from 39,500 individuals in 2002-03 to 51,598 individuals in 2008-09, a 31 percent increase. At the same time, the number of people receiving services in public and private institutions for individuals with mental retardation has decreased from 4,260 individuals in 2002-03 to 3,820 individuals in 2008-09, a 10 percent decrease.

Persons Receiving Mental Retardation Services



Caring for All Pennsylvanians

The 2008-09 budget includes \$127.1 million to increase services for children, adults and families in need. This is in addition to the significant increases recommended to provide health insurance for Pennsylvania's uninsured children and adults.

- \$48.4 million for **subsidized child care services** – a total state investment of \$394.6 million:
 - to provide **subsidized child care services** to 2,600 additional children;
 - to continue providing quality **early learning experiences** to 171,000 children through the Keystone STARS program;
 - to implement a web-based Early Learning Network for the collection of **child-based assessment information** and other quality indicators; and,
 - to provide for increases in services costs to ensure **access to quality care**.
- \$28.3 million to provide home and community-based services to 1,818 additional people with **mental retardation** and to address new federal requirements – a total state investment of \$913.2 million.
- \$13.8 million to provide **early intervention services** for 3,000 additional children from birth through age five and to maintain existing services for 77,700 children – a total state investment of \$306.6 million.

Caring for All Pennsylvanians (cont'd)

The 2008-09 budget includes \$127.1 million to increase services for children, adults and families in need. This is in addition to the significant increases recommended to provide health insurance for Pennsylvania's uninsured children and adults.

- \$11.5 million to allow **more children to be adopted** and to continue to provide financial assistance to those who have already been adopted – a total state investment of \$108.9 million.
- \$11.3 million to provide **prescription drug coverage** to 43,000 Medical Assistance recipients for whom these services are not currently available.
- \$7.6 million to provide home and community-based services for 400 adults with **autism** and to continue developing a statewide model of excellence – a total state investment of \$23.7 million.
- \$4.4 million to provide home and community-based services to 91 additional people with **mental illness** currently residing in state hospitals – a total investment of \$386.3 million.
- \$1 million to provide **nurse family partnership services** to as many as 240 additional families in three additional counties – a total state investment of \$8.3 million.
- \$750,000 to provide **cervical cancer** education, screening and treatment services to 10,350 uninsured women under age 40.

2008-09 Budget Overview

Medical Assistance

The Rendell Administration's Guiding Principles for Preserving and Reforming the Safety Net

- *Children will not experience any reduction in services.*
- *No one currently receiving health care services from the commonwealth will lose eligibility.*
- *Pennsylvania will provide services for the growing number of vulnerable individuals and families who require our assistance.*

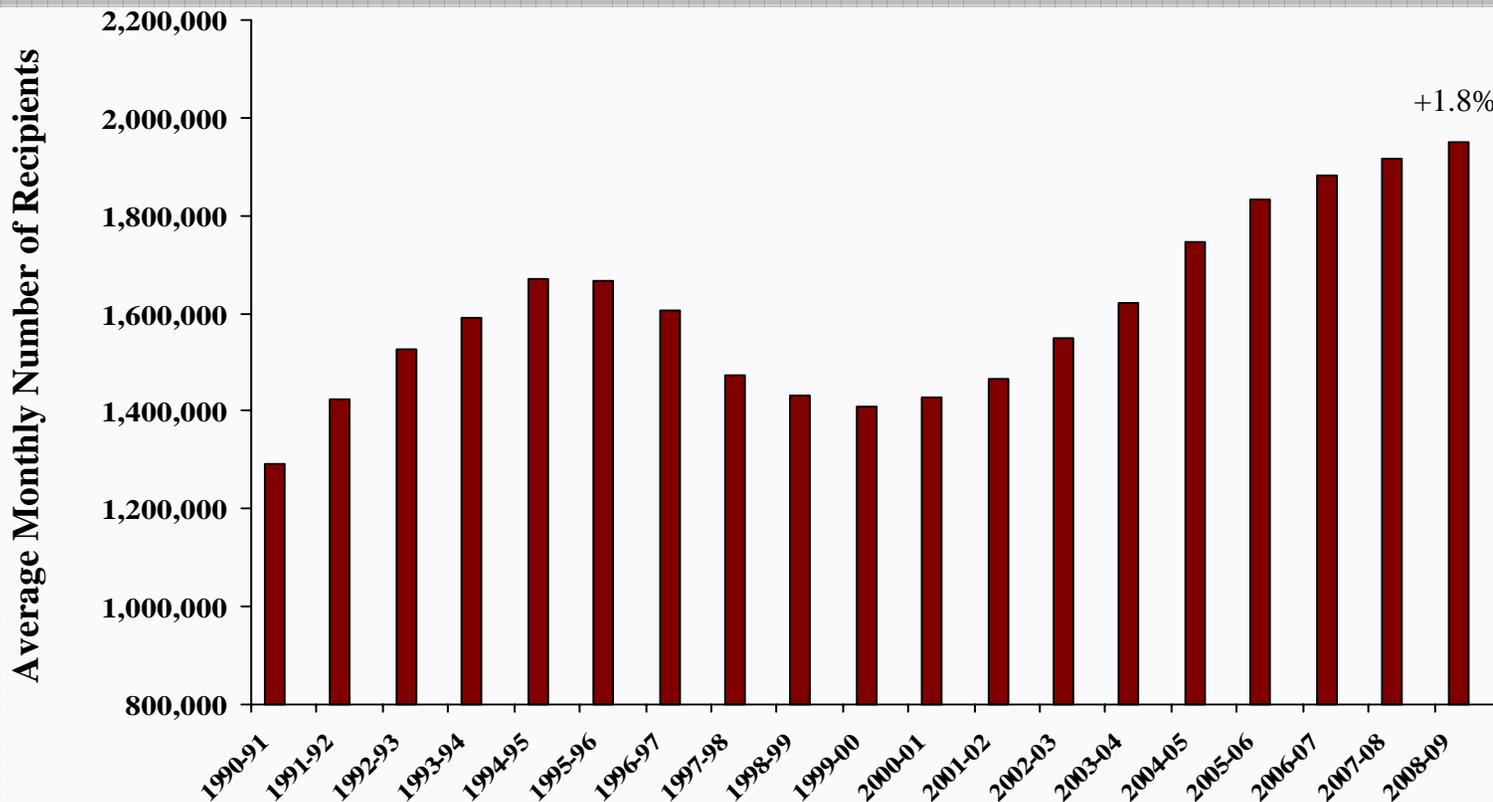
Medical Assistance in Pennsylvania

- Provides medical care for low-income individuals
 - Children, pregnant women, the elderly and people with disabilities
 - Currently serves more than 1.9 million people
- Comprehensive benefits package
 - Inpatient and outpatient services
 - Long-term care
 - Prescription drugs
 - Limited cost sharing
- Provider network includes 66,000 providers
- Total annual expenditures are \$10.7 billion
- Long-term living expenditures of \$4.5 billion are presented separately in 2008-09
- State-administered but jointly funded with federal and state funds
- State funding from the General Fund, Lottery Fund and Tobacco Settlement Fund

Medical Assistance *Serving More People in Need*

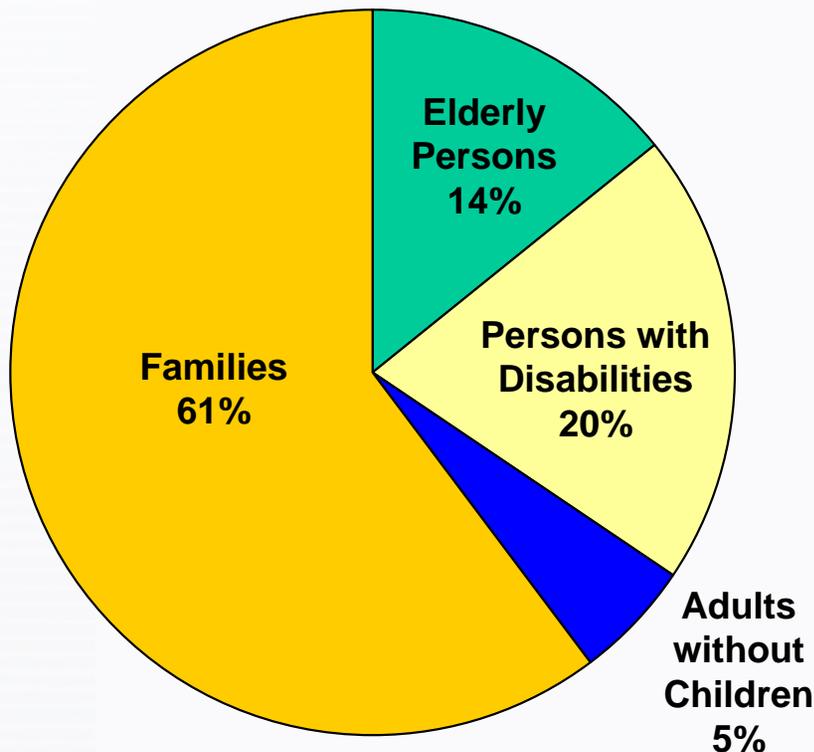
The Medical Assistance program is projected to provide services to an additional 34,030 clients during 2008-09, for a total of 1.9 million clients. The number of adults enrolled in the program will decrease slightly, due in part to decreases in the TANF caseload, which are offset by increases in Cover All Pennsylvanians.

Growth in the Medical Assistance caseload results from serving additional elderly people, persons with disabilities and children.

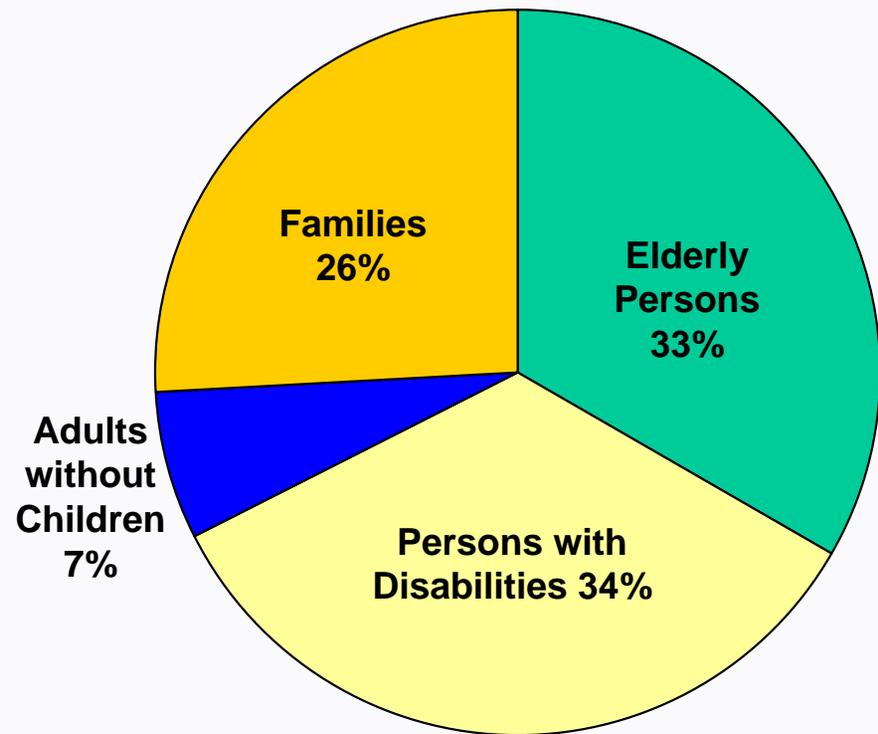


Seniors and People with Disabilities Use the Greatest Share of Medical Assistance Resources

Elderly and disabled persons are only 34 percent of the total Medical Assistance population, but they account for 67 percent of the Medical Assistance expenditures. Families comprise 61 percent of the Medical Assistance population but account for just 26 percent of the expenditures.



Number of People

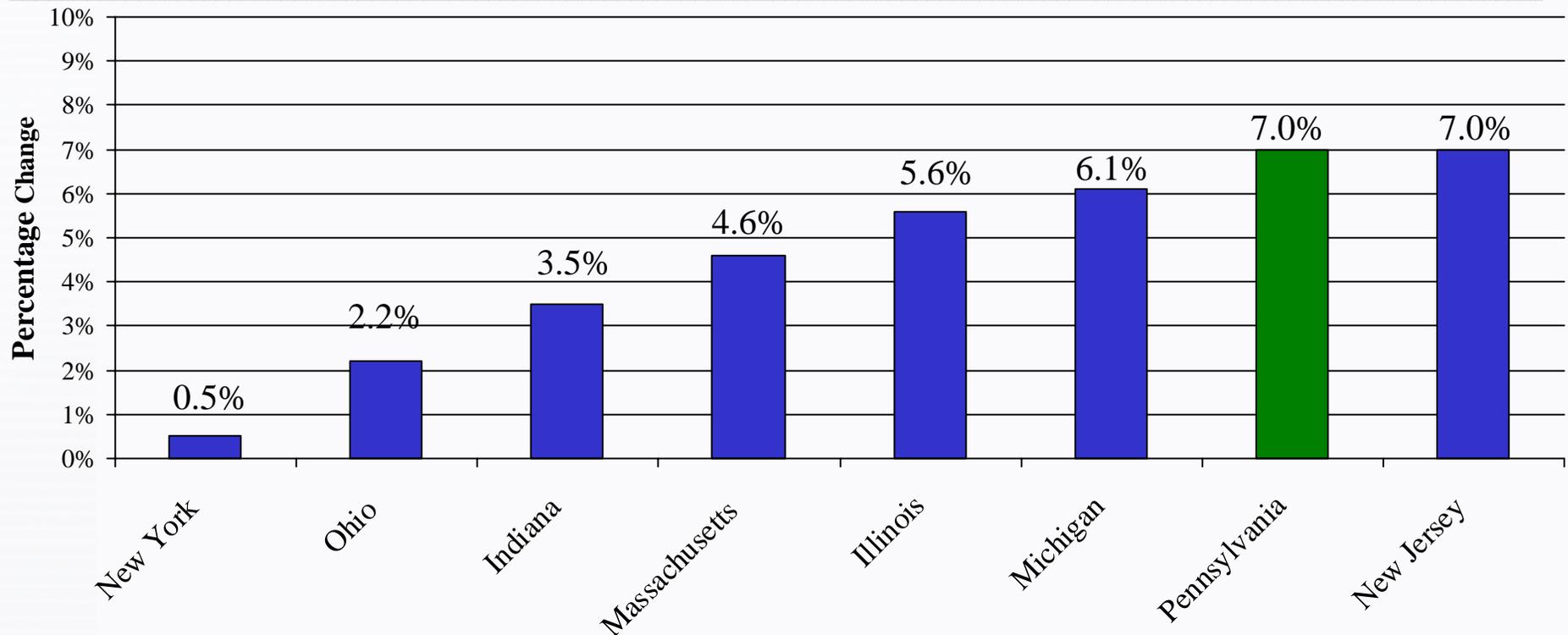


Expenditures

Medicaid Enrollment Trends

Pennsylvania versus Other Large Industrial States (2005 to 2006)

From 2005 to 2006, most of the large industrial states experienced slower growth in Medicaid enrollments than Pennsylvania. This trend is predicted to continue in Pennsylvania in 2008-09, but providing the necessary health services continues to present fiscal challenges. Pennsylvania's Medicaid enrollment increased 7 percent between 2005 and 2006.



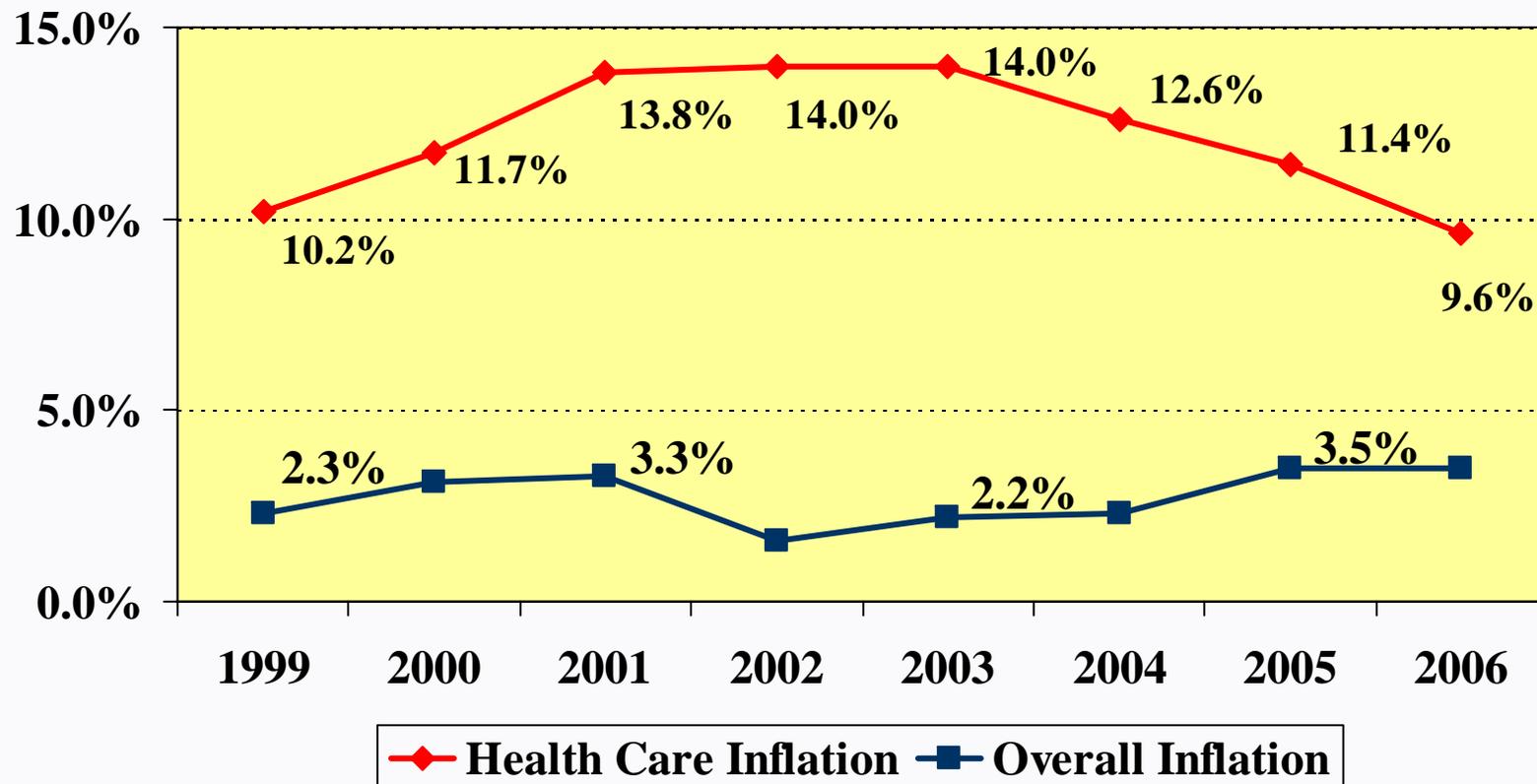
Source: Centers for Medicare and Medicaid Services, Medicaid and Managed Care Enrollment Tables.

Managing Medicaid is a National Problem

- Pennsylvania is not alone in its struggle to cope with growing costs for the federal-state Medicaid program. Most states have experienced significant increases in caseloads and costs over the past several years.
- Recent trends suggest that caseload growth is beginning to slow.
- Evidence suggests that states are doing a better job of managing their Medicaid health care costs than the private health care market.
- The commonwealth has successfully reduced Medicaid caseloads and costs; however, cost-containment and strong management of the commonwealth's Medicaid program remain a necessity.

Health Care Inflation Is Growing Faster than the Overall Rate of Inflation

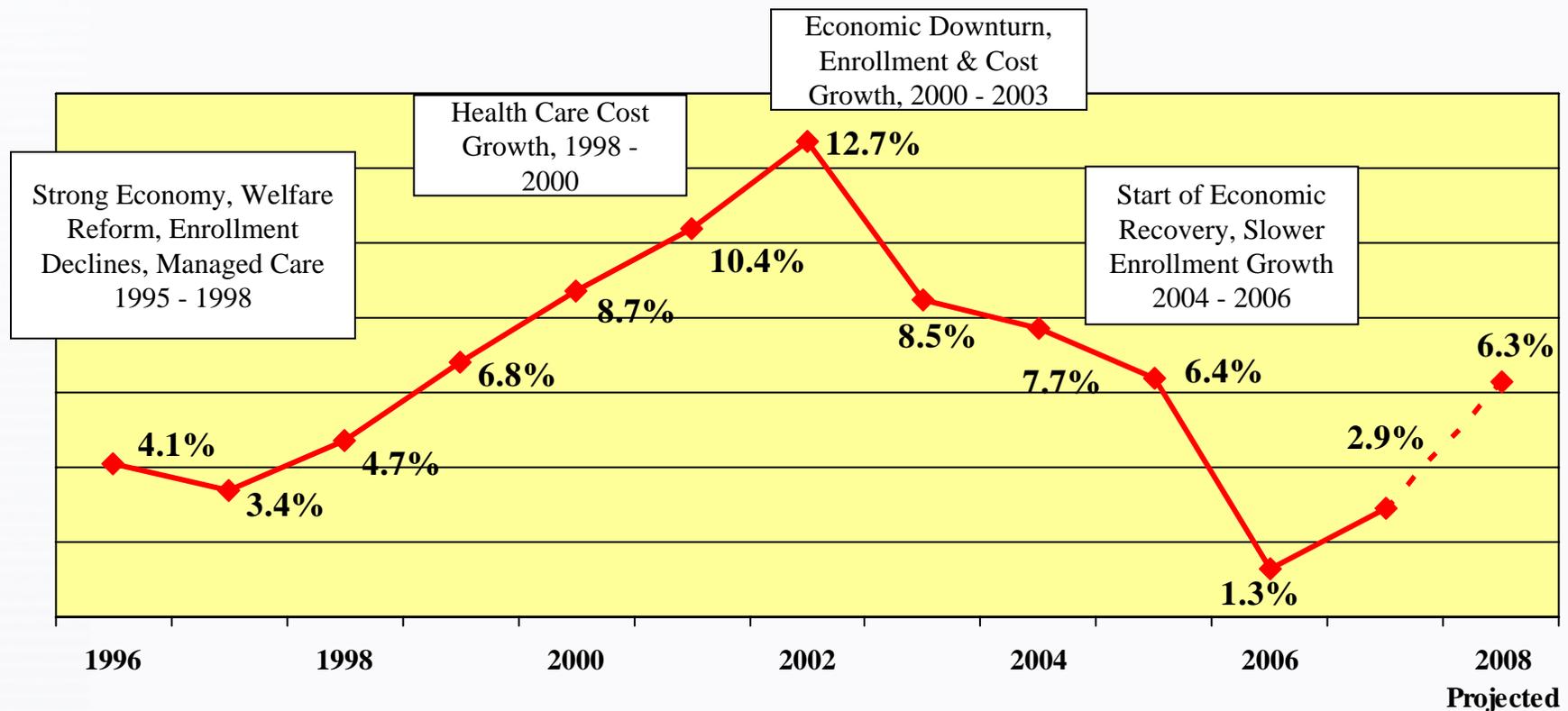
Health care inflation has exceeded overall inflation by a significant margin.



Health care composite inflation rates developed from data provided by Buck Consultants.

National Medicaid Spending Growth 1996 – 2008

Medicaid Spending Growth is Down from the 2002 Peak but Costs are Still Rising

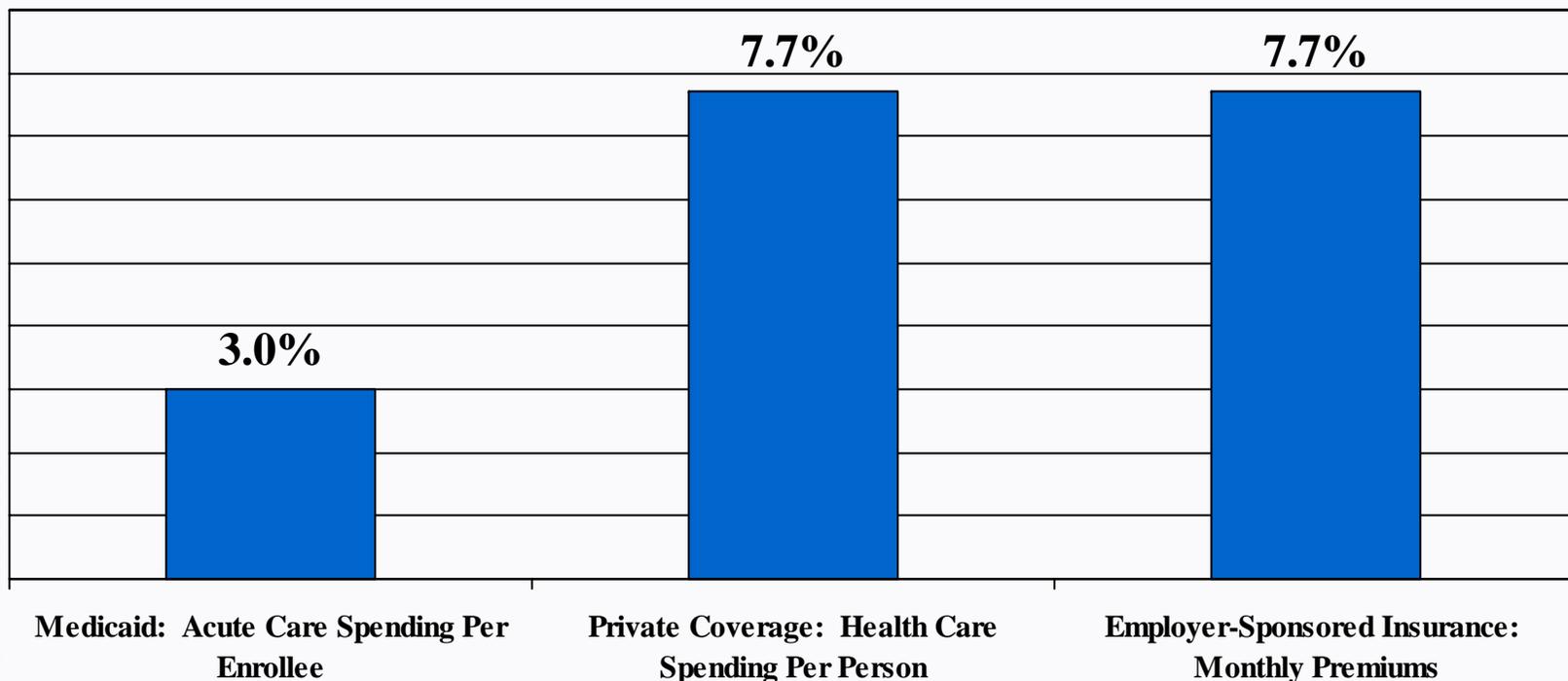


Note: Estimates in state Fiscal Year. Preliminary estimate for 2008.

SOURCE: Kaiser Commission on Medicaid and the Uninsured. “Results from a 50-State Medicaid Budget Survey for State Fiscal Years 2007 and 2008,” October 2007.

States Are Managing Medicaid Costs But Growth Continues

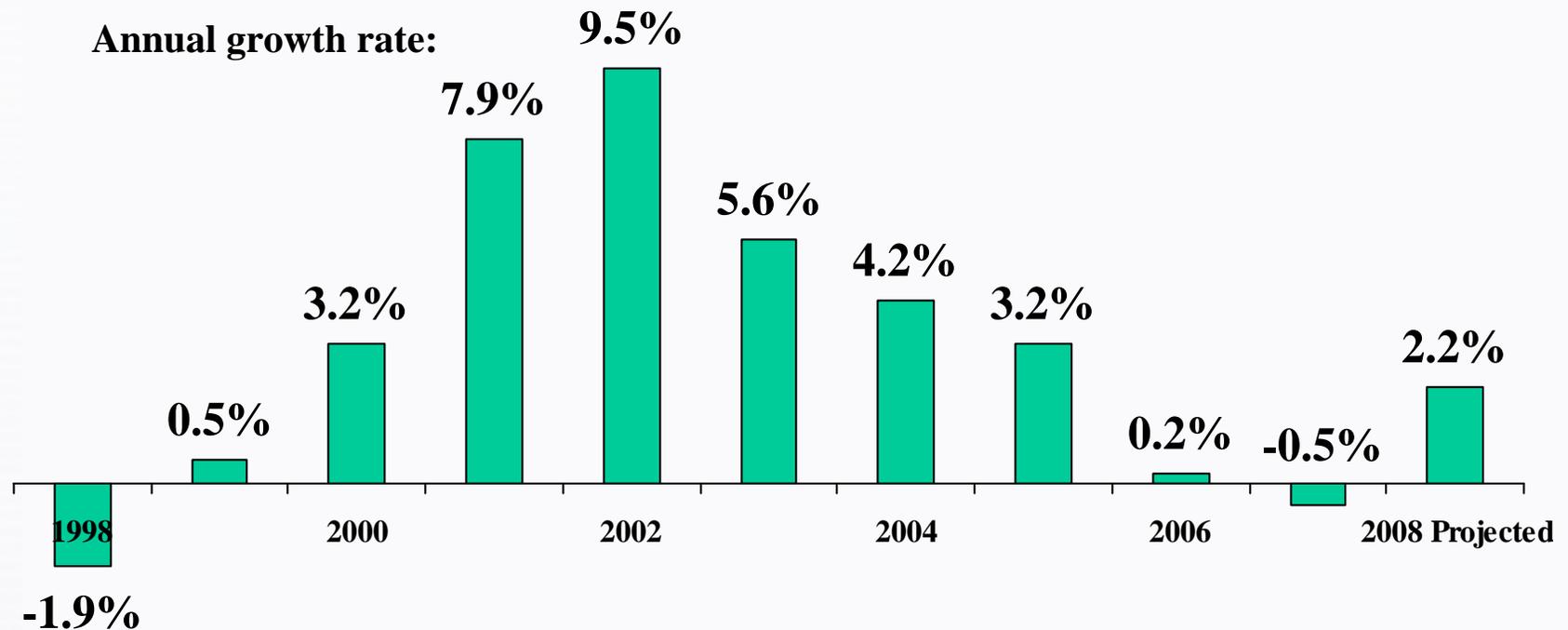
*Per Capita Medicaid Spending Growth in the U.S. Compares Favorably to
Growth in Private Health Care Spending 2005 – 2006*



SOURCE: Kaiser Commission on Medicaid and the Uninsured. “Results from a 50-State Medicaid Budget Survey for State Fiscal Years 2007 and 2008,” October 2007.

Percent Change in U.S. Medicaid Enrollment

Enrollment Growth Down from the 2002 Peak – Rolls Expected to Grow in 2008

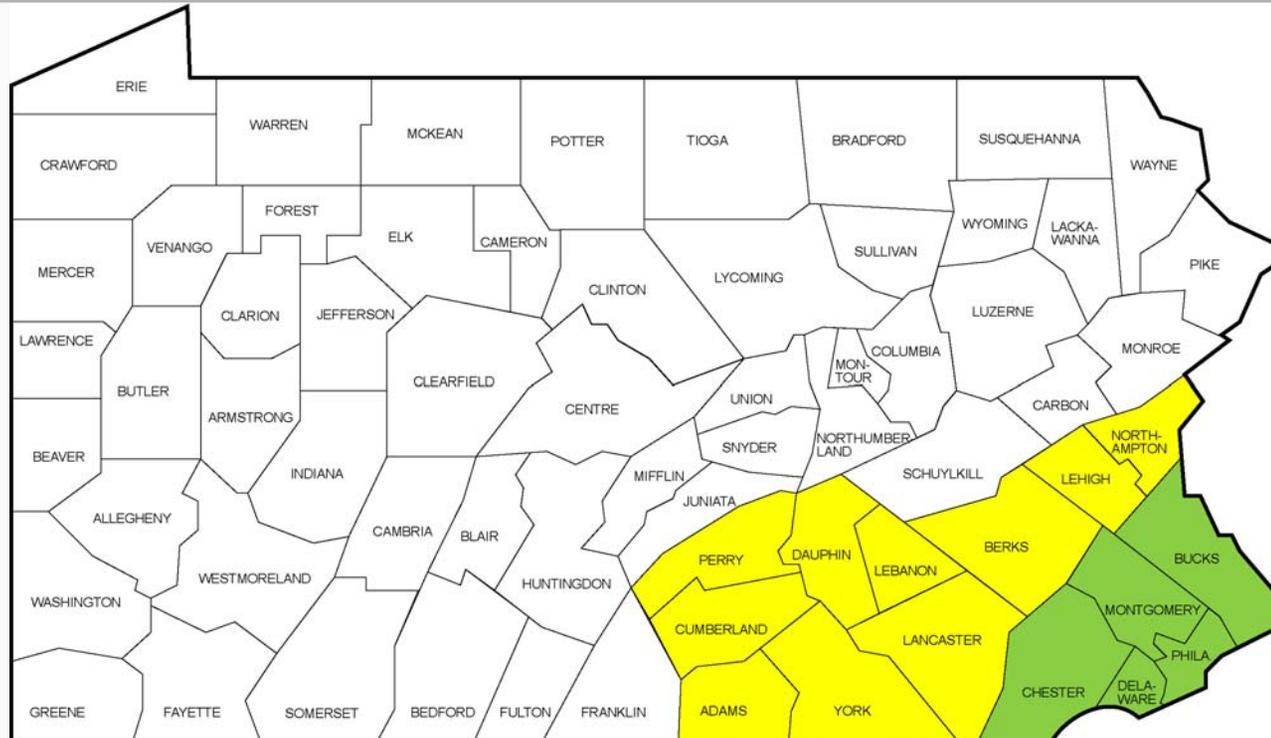


Note: Percentage changes from June to June of each year.

SOURCE: Kaiser Commission on Medicaid and the Uninsured. "Results from a 50-State Medicaid Budget Survey for State Fiscal Years 2007 and 2008," October 2007.

Improving Managed Care *A New Model for Southeast and Lehigh/Capital Zones*

*The Department of Public Welfare will introduce a new managed care model in the HealthChoices Southeast and Lehigh/Capital zones. The department will challenge bidders to introduce innovative approaches to support the goals of **Prescription for Pennsylvania**, such as promoting health equity and improving chronic-care management for Medical Assistance consumers. In addition, the department will assume responsibility for managing the pharmacy benefit in the new contracts. New agreements will be effective January 1, 2009.*



2008-09 Budget Overview

PACE Plus Medicare **Comprehensive Prescription Drug** **Coverage for Older Pennsylvanians**

PACE Plus Medicare Prescription Drug Program

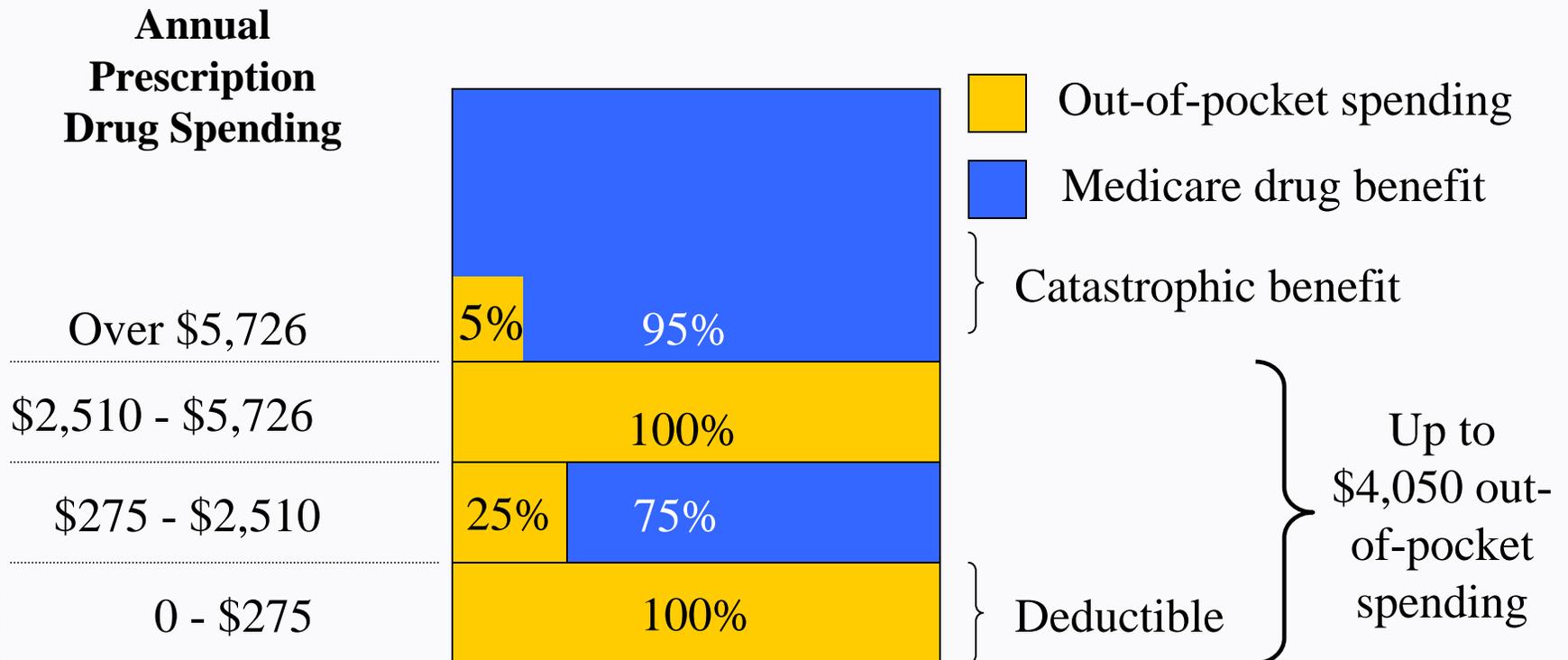
Integrating PACE/PACENET Benefits with Medicare Part D

The PACE Plus Medicare program “wraps around” the federal program and fills the gaps in coverage, including when PACE/PACENET participants reach the so-called “doughnut hole” in the Medicare Part D coverage.

- ✓ In July 2006, the Pennsylvania General Assembly passed and Governor Rendell signed legislation establishing PACE Plus Medicare, which enhances the commonwealth’s PACE and PACENET programs to provide seamless pharmaceutical coverage with the new Medicare Part D prescription drug benefit.
- ✓ To assist in coordinating benefits, PACE/PACENET acts as the authorized representative for its cardholders to assess eligibility and apply for low-income subsidies, to select and enroll in Part D plans that best match cardholders’ prescription and pharmacy profiles and to undertake appeals for plan denials of coverage or determination of non-preferred status for particular drugs.
- ✓ A new enrollment period began on January 1, 2008 and will occur annually each year. As of October 2007, 76 percent (240,143) of cardholders were enrolled in a Part D plan.
- ✓ In 2008, cardholders may be assigned to one of five Medicare Part D plans that will partner with the program. PACE assigns cardholders annually to a partner plan. The average Part D premiums range from \$20.40 to \$26.50, a decrease on average from 2007.

Medicare Part D Prescription Drug Program

How the Standard Medicare Part D Program Works for Households with Incomes Greater Than 150 Percent of Poverty



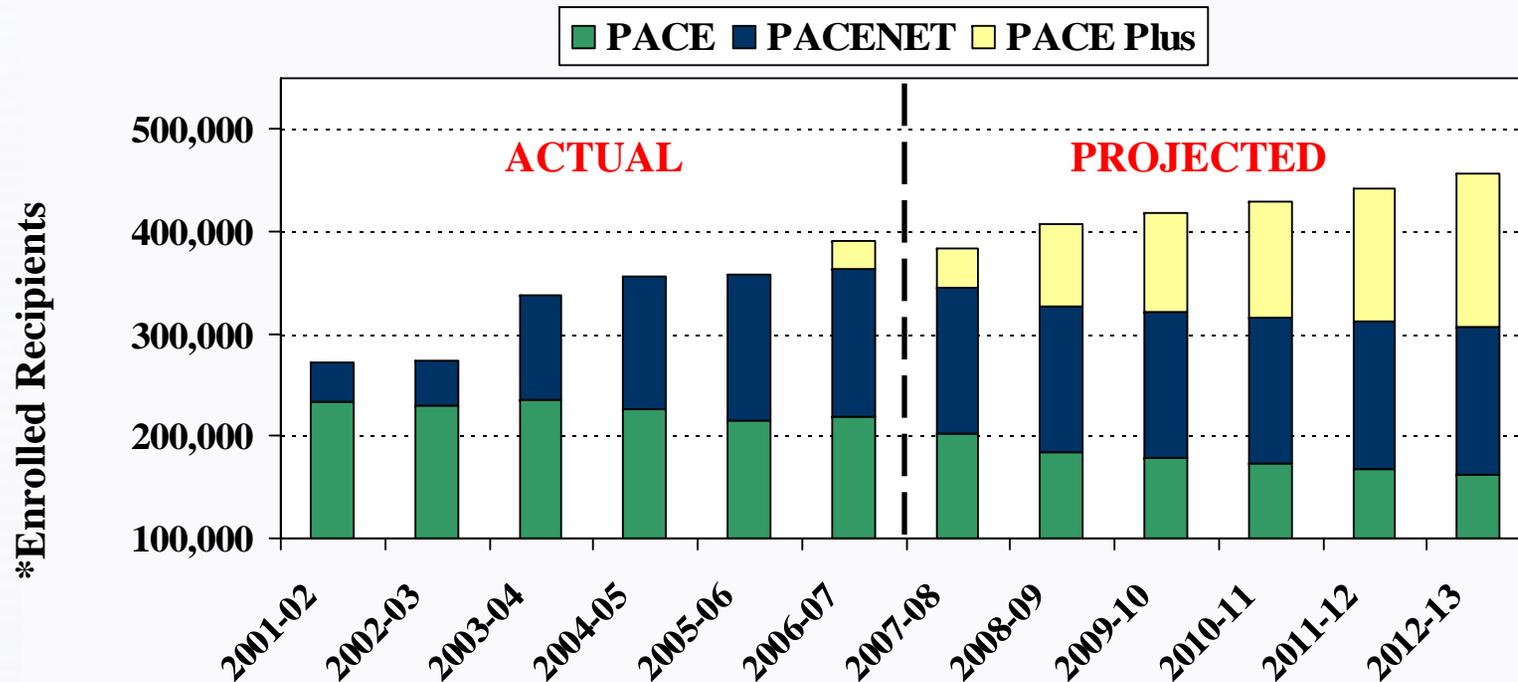
Medicare Part D plans may offer alternative options as long as they are actuarially equivalent.

PACE Plus Medicare Wraps Seamlessly Around the Medicare Part D Benefit

Costs	PACE	PACENET
	<i>The state:</i>	<i>The state:</i>
Premiums	Pays the cost of the monthly premium.	Eliminated the \$40 per month PACENET deductible. Consumers pay the premium of the Medicare Part D plan in which they are enrolled.
Deductibles	Pays for deductibles except program co-pays.	Pays for deductibles except program co-pays.
Drug Coverage	Pays for drugs excluded under federal law and those not covered under a plan's formulary.	Pays for drugs excluded under federal law and those not covered under a plan's formulary.
Co-payments	Pays co-pay and co-insurance differentials in excess of the PACE co-pays (\$6 for generics and \$9 for brands).	Pays co-pay and co-insurance differentials in excess of the PACENET co-pays (\$8 for generics and \$15 for brands).
Gap Coverage	Covers the gap.	Covers the gap.
Catastrophic Coverage	Pays for drugs excluded under federal law and those not covered under a plan's formulary when the drug costs exceed \$5,726.	Pays for drugs excluded under federal law and those not covered under a plan's formulary when the drug costs exceed \$5,726.

PACE Plus Medicare Pharmaceutical Assistance Program Enrollment

Because of expansions to the PACE/PACENET program since 2002, more than 133,000 additional older Pennsylvanians no longer have to choose between filling prescription drugs and other pressing needs. The number of older adults benefiting from these three programs, at 273,923 in 2002-03, is projected to rise to 407,575 in 2008-09 – an increase of 49 percent over the last five years.



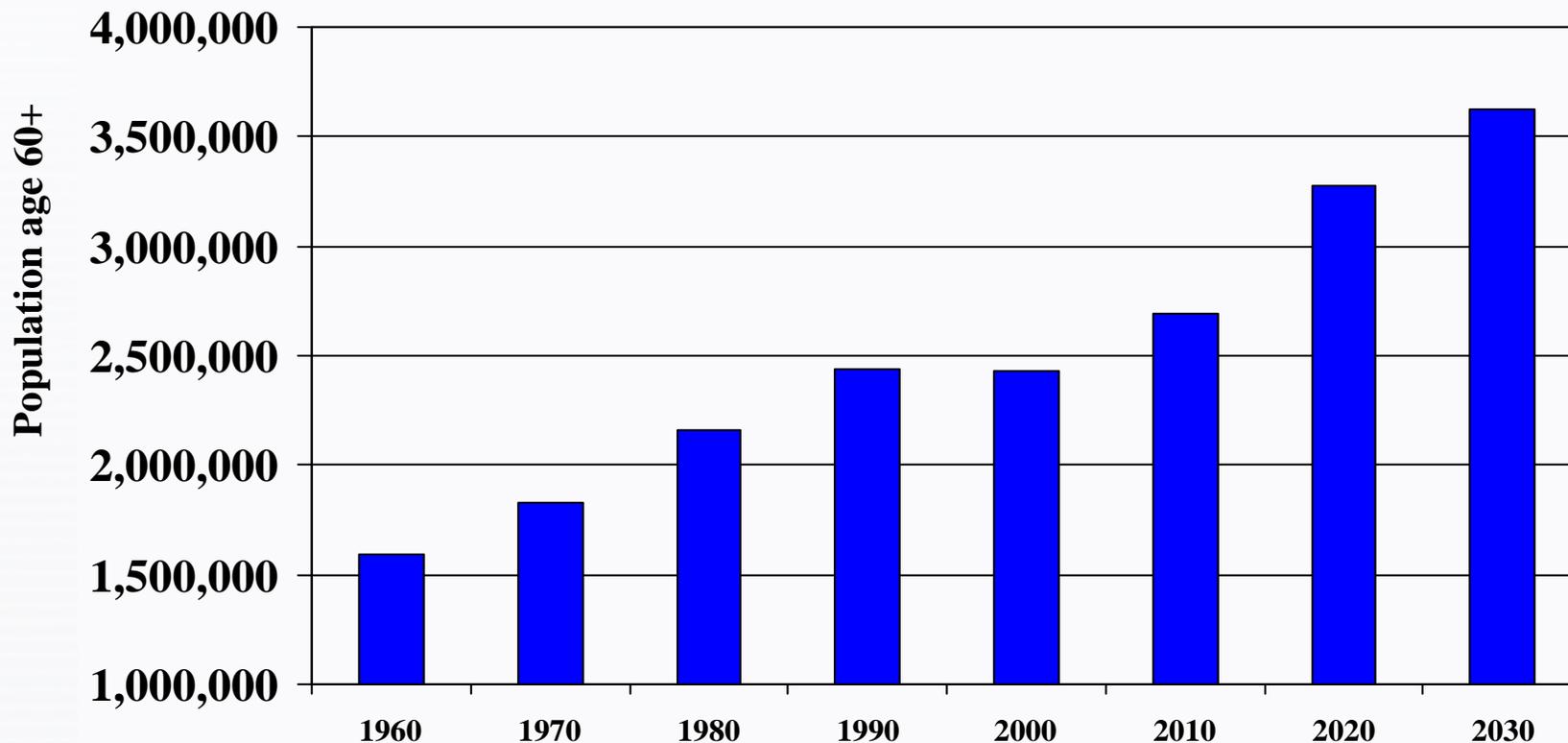
*Note: People who move from one program to another during the year are counted in each program.

2008-09 Budget Overview

Long-Term Living

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.



The Commonwealth's Plan for Long-Term Living

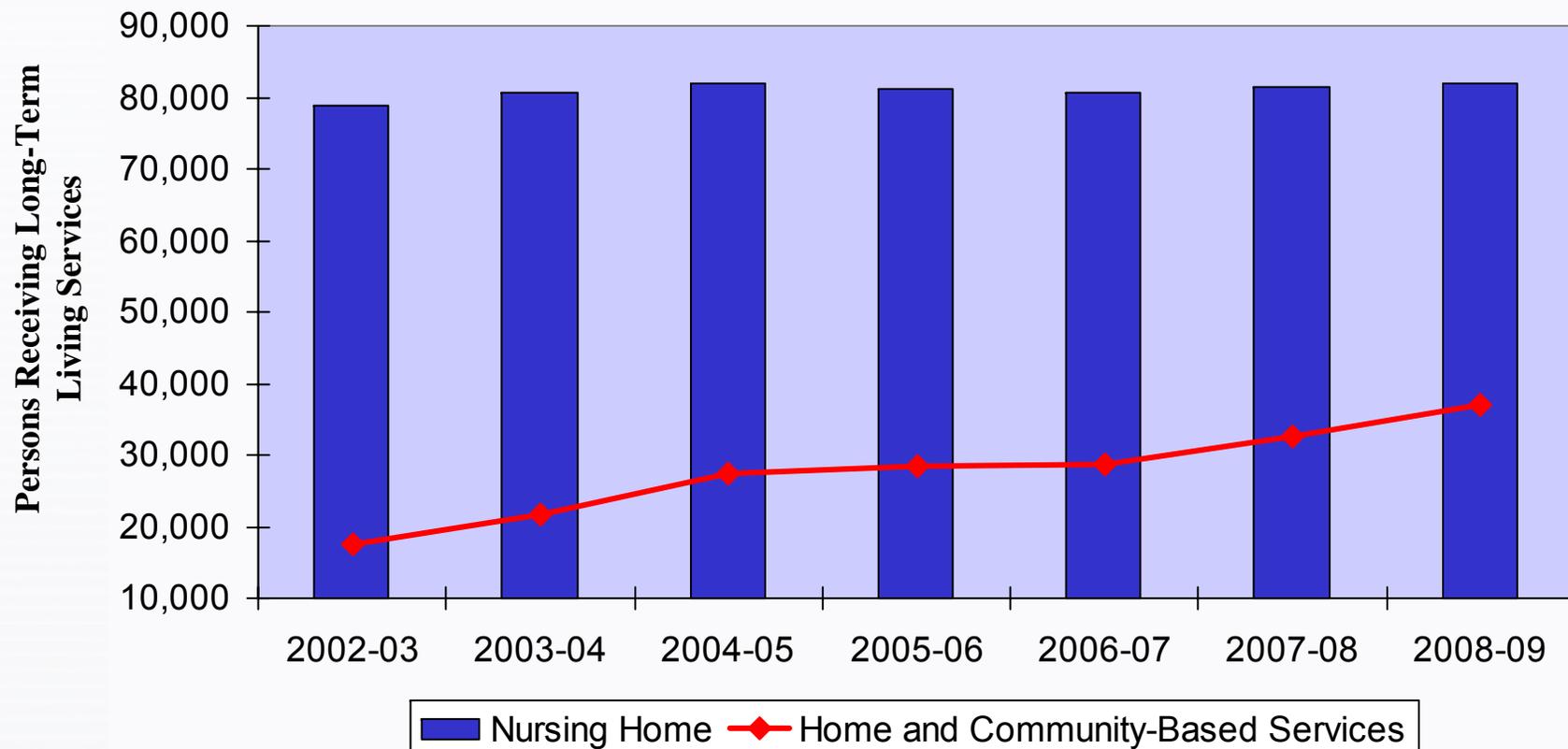
The Long Term Living Council, established by Governor Rendell in 2005, has developed a plan for the future of Medical Assistance long-term living services in the commonwealth, building upon the administration's successes to date in reforming and rebalancing the state's long-term living system. The proposed 2008-09 budget provides \$29.2 million in additional state funds to continue progress on this plan.

This budget provides funding to:

- Increase the number of people who can use home and community-based services instead of nursing homes, including 2,100 more people age 60 and above and 1,169 more people under age 60. These increases move the commonwealth closer to the goal of achieving a balance of 50 percent institutional care to 50 percent home and community-based care over the next four years.
- Implement the Money Follows the Person Demonstration program that helps people who live in institutions return to the community.
- Expand the number and types of community-based service options, including:
 - \$3.1 million in state funds to increase adult day care capacity in the commonwealth.
 - \$2 million in state funds to expand the transitional housing program for people who want to move out of institutions.
- Continue building quality, efficiency and integrity in the long-term living system, including:
 - \$1.3 million in state funds to begin licensing, certifying and inspecting assisted living residences.
 - \$300,000 in state funds to develop a new payment system for nursing facilities and standardize rate-setting for community-based programs.

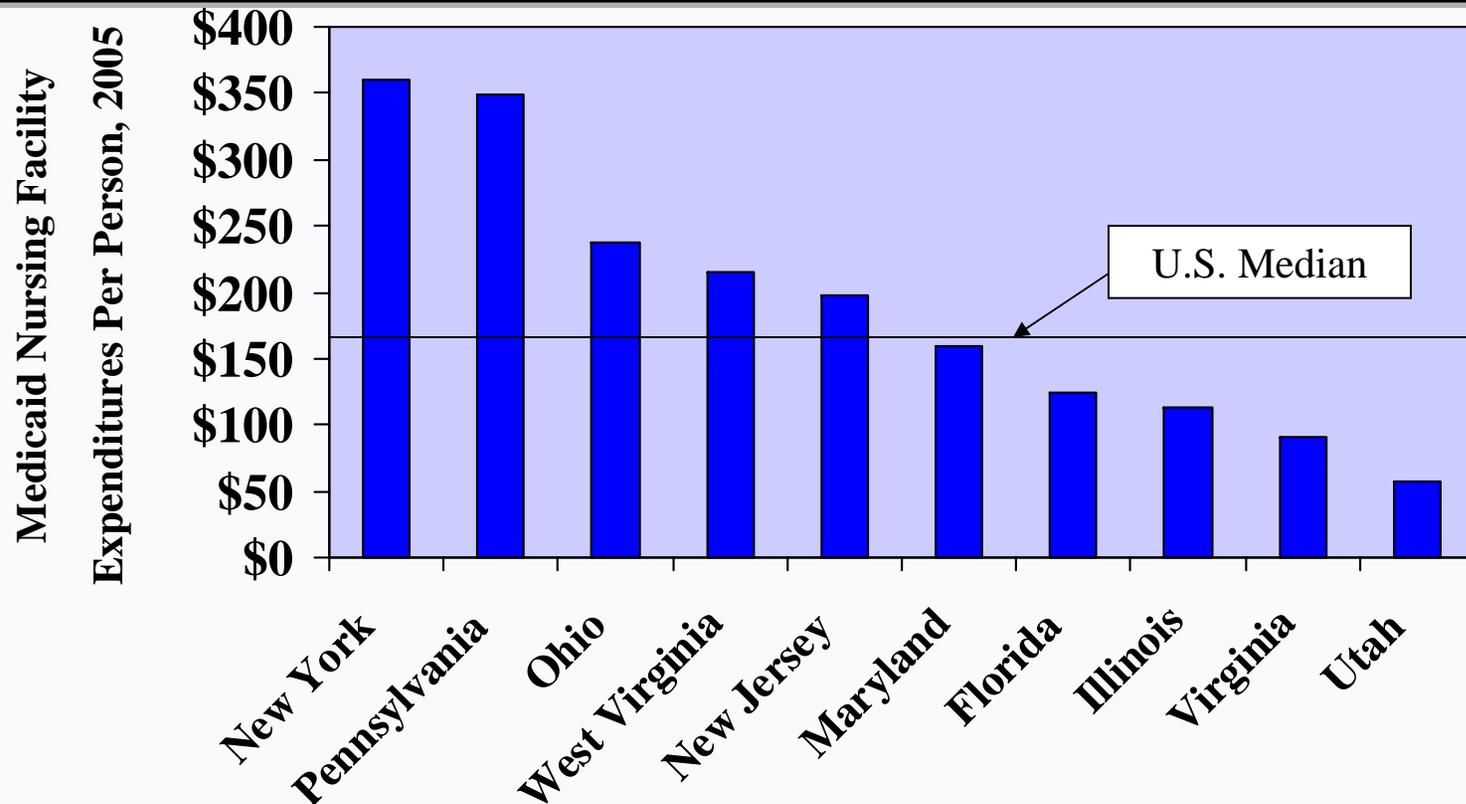
Expanding Long-Term Living Choices

The 2008-09 budget provides funds to expand the number of people using home and community-based services to 37,031 – an increase of 112 percent since 2002-03.



AARP Study Finds Pennsylvania Second in Nation in Medicaid Nursing Facility Expenditures per Person

The commonwealth's expenditures on nursing facilities, at \$349 per person in the state in 2005, are second only to New York's expenditures. Maryland, at \$160 per capita, is just under the median expenditure in the U.S. Utah, which spends just \$58 per capita, ranks 50th.



Source: AARP Public Policy Institute, Across The States: Profiles of Long-Term Care and Independent Living, 2006.

Long-Term Living

The Cost of Inaction

- If Pennsylvania does not reform its long-term living system, consumers will have fewer options available to them and could be forced to reside in nursing homes instead of their preference of receiving services in their homes.
- If Pennsylvania does not implement aggressive long-term living system reforms, the Long Term Living Council projects that by 2011, the cost to taxpayers will grow by 25 percent, an increase of \$445 million over current state fund spending.

2008-09 Budget Overview

Tobacco Settlement Fund/ Community Health Reinvestment

2008-09 Health Investment Plan

Tobacco Settlement Fund/ Community Health Reinvestment 2008-09 Health Investment Plan

The Tobacco Settlement Fund receives revenue from the Master Settlement Agreement with the five major tobacco companies and from the Community Health Reinvestment Agreement with Pennsylvania's Blue Cross/Blue Shield plans. These funds provide health care for the uninsured, home and community-based services for seniors, tobacco use prevention and cessation, broad-based health research, medical care for workers with disabilities, hospital uncompensated care and an endowment account to preserve a portion of the receipts for future uses. This budget recommends a total of \$584 million, which also includes the Tobacco Fund and Endowment Account interest and earnings and Tobacco Strategic Contribution payment, to be used for the following health care related activities

Adult Health Insurance (Includes Cover All Pennsylvanians)	\$196.3 million	Pharmaceutical Benefits for the Elderly	\$14.9 million
Long-Term Living	\$183.8 million	Biotechnology Commercialization	\$7.4 million
Health Research (includes Jonas Salk)	\$70.7 million	Health Venture Investment	\$7.4 million
Hospital Uncompensated Care	\$37.2 million	Life Sciences Greenhouses	\$3.0 million
Tobacco Prevention and Cessation	\$33.5 million	Endowment Account	\$29.8 million

2008-09 Budget Overview

Environmental Programs

Growing Greener II

Governor Rendell has championed an agenda for Pennsylvania's future that is based on a belief that the commonwealth can achieve tremendous economic growth and also create a cleaner environment through strategic investments that preserve our natural resources, our farms and our open spaces, thereby revitalizing our communities and improving our quality of life. To implement this vision and address some of Pennsylvania's most critical environmental concerns, Governor Rendell proposed the Growing Greener II plan. This plan was enacted by the General Assembly and approved by the state's voters in 2005. More than 600 environmental projects have been announced since the program began. The \$625 million, six-year Growing Greener II program is providing:

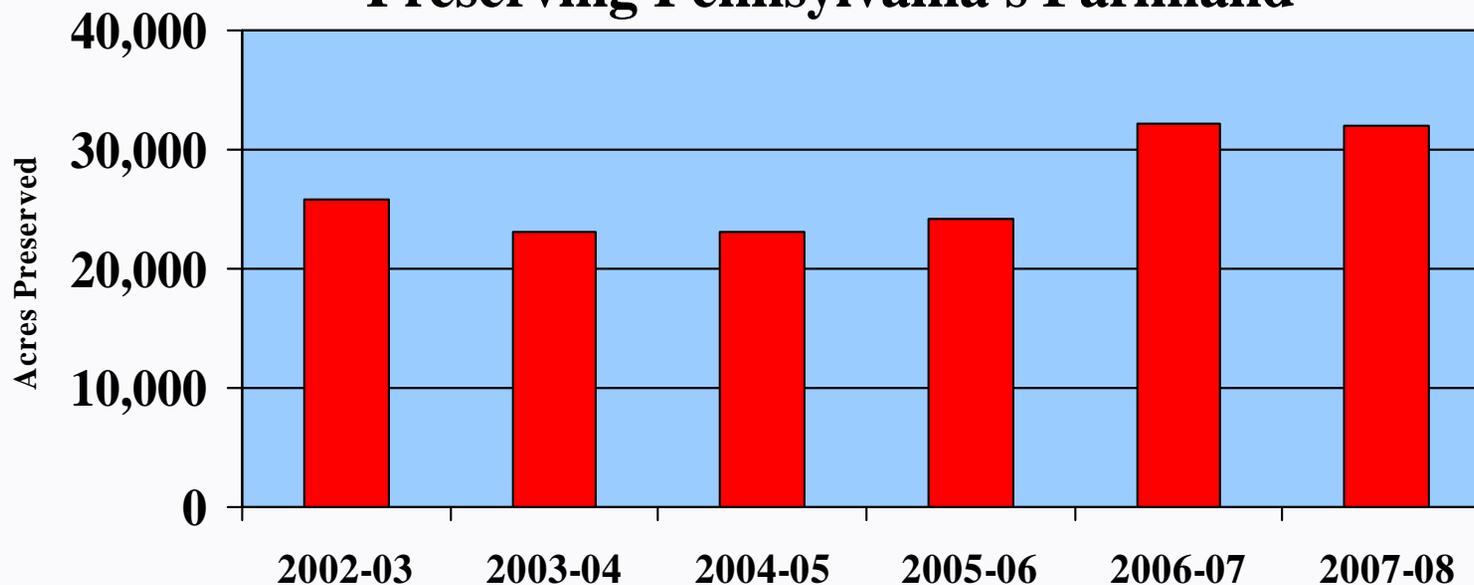
- **\$230 million** to the **Department of Environmental Protection** to clean up rivers and streams, take on serious environmental problems at abandoned mines and contaminated industrial sites and finance the development of advanced energy projects.
- **\$217.5 million** to the **Department of Conservation and Natural Resources** to preserve open spaces, improve parks and enhance local recreational needs.
- **\$80 million** to the **Department of Agriculture** to protect farms.
- **\$50 million** to the **Department of Community and Economic Development** to revitalize communities with investments in housing and redevelopment projects.
- **\$27.5 million** to the **Pennsylvania Fish and Boat Commission** to repair fish hatcheries and aging dams.
- **\$20 million** to the **Pennsylvania Game Commission** for habitat-related facility upgrades and repairs.

Growing Greener II - Showing Results for a Better Pennsylvania Environment

Growing Greener II is already proving itself, as demonstrated by the increasing number of farmland acres that will be preserved for Pennsylvania's future. Approximately 32,000 acres of farmland will be preserved in 2007-08.

Pennsylvania ranks #1 in the country in both the number of preserved acres and number of preserved farms.

Preserving Pennsylvania's Farmland



2008-09 Budget Overview

Public Safety and Security

Pennsylvania's Safety and Security *A Commonwealth Priority*

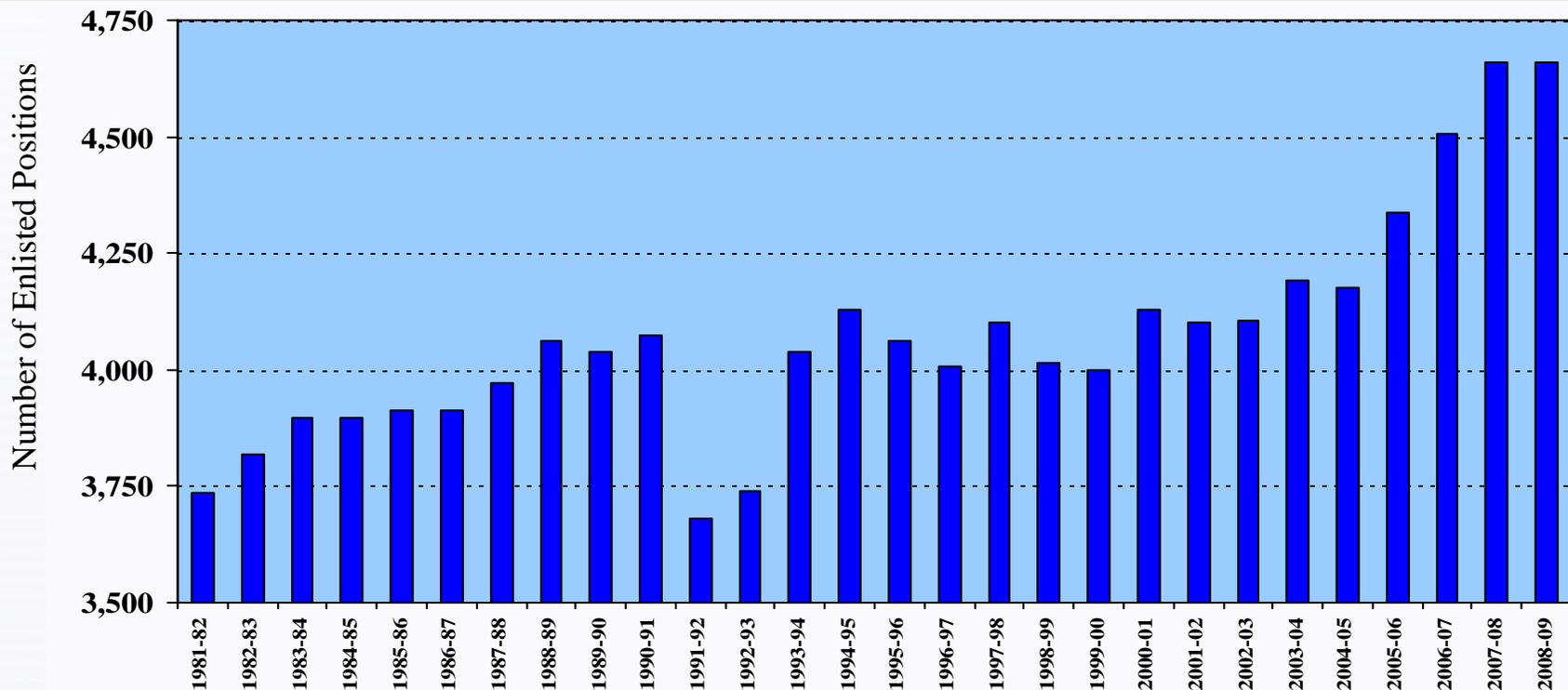
The 2008-09 budget provides additional investments to continue the administration's efforts to increase the security and safety of Pennsylvania's residents and businesses.

- ✓ \$2.6 million in **savings** to Corrections from a **comprehensive, crime-reducing legislative package**
- ✓ \$2.2 million in total funds to implement the findings of the **Witt report** and create the new **Department of Emergency Management and Homeland Security**
- ✓ \$20.0 million in state funds for **Police on Patrol**
- ✓ \$16.8 million in federal funds for **hazard mitigation**
- ✓ \$14.0 million in federal funds for **pandemic influenza preparedness**
- ✓ \$11.2 million in state funds for **capacity increases at community corrections centers**
- ✓ \$3.6 million in state funds for three new **prison housing units**
- ✓ \$2.4 million in state funds for additional **parole agents and staff to increase case processing capabilities**
- ✓ \$2.0 million in state funds for **mentoring children of incarcerated parents**
- ✓ \$5.6 million to procure **anti-viral medicine**

Pennsylvania State Police *Status Update*

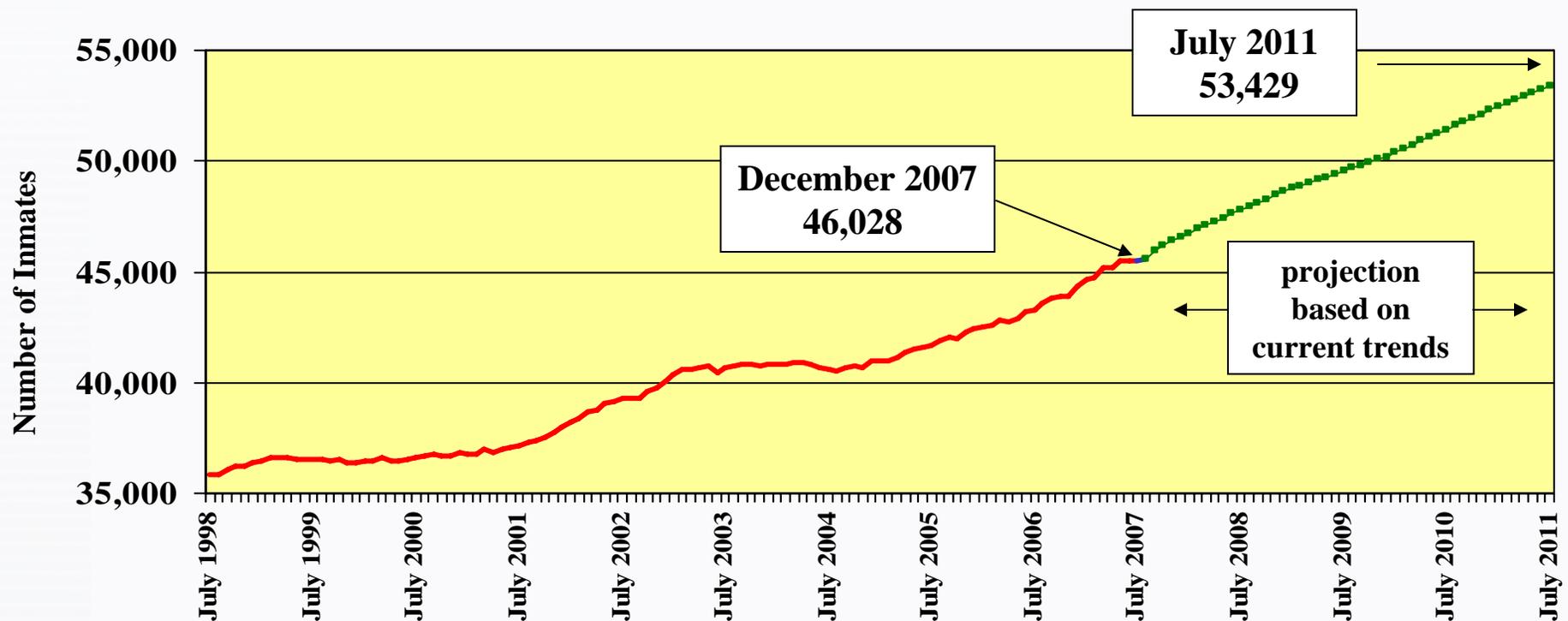
The Rendell Administration has supported the greatest increase in State Police trooper strength in Pennsylvania history. Recognizing the critical role of the State Police in ensuring public safety, the 2008-09 budget includes funding to enable the filled trooper levels to reach 4,660 positions by June 2008, including this summer's cadet class.

The 2008-09 budget increases gun check fees to ensure the self-sufficiency of this program.



Department of Corrections Inmate Population *Status Update*

Without corrective action and based on current trends, the number of offenders incarcerated in State Correctional Institutions is projected to increase nearly 20 percent, from more than 46,000 inmates in December 2007 to more than 53,000 inmates by July 2011. The 2008-09 annual cost per inmate will be more than \$33,000.



Comprehensive Crime-Fighting Legislation

Reducing Crime, Recidivism and the State's Prison Population

Legislation that will reduce crime, lower the rate at which offenders return to prison and make our communities safer is currently pending before the General Assembly. In its entirety, this legislative package also has the ability to decrease costs for the Department of Corrections and the Board of Probation and Parole by tens of millions of dollars over the next five years.

This budget assumes the enactment of this legislation in 2008.

Sentencing Reform:

- Provides authority for new guidelines by the Pennsylvania Commission on Sentencing. Increases access to the State Intermediate Punishment (SIP) program and provides for recidivism risk reduction incentive minimum sentencing.
 - ***House Bill 4:*** *Introduced August 24, 2007. Currently in House Appropriations Committee*
 - ***Senate Bill 1045:*** *Introduced August 2, 2007. Currently in Senate Appropriations Committee*

Transfer of Inmates:

- Provides for the temporary transfer of inmates who are in the state prison system.
 - ***House Bill 5:*** *Introduced July 6, 2007. Currently in House Appropriations Committee*
 - ***Senate Bill 1206:*** *Introduced December 7, 2007. Currently in Senate Appropriations Committee*

Comprehensive Crime-Fighting Legislation

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This budget assumes the enactment of this legislation in 2008.

Parole Reform:

- Provides for the possibility of administrative parole which requires less supervision. The legislation further provides for “rebuttable parole” for eligible offenders who complete programming and treatment required and certified by the Department of Corrections.
 - **House Bill 6:** Introduced August 21, 2007. Currently in House Appropriations Committee
 - **Senate Bill 1207:** Introduced December 7, 2007. Currently in Senate Appropriations Committee

Compassionate Release:

- Authorizes the Department of Corrections to petition the sentencing court for removal from a state correctional institution certain inmates who are seriously ill.
 - **House Bill 7:** Introduced November 27, 2007. Currently in House Appropriations Committee
 - **Senate Bill 1044:** Introduced August 2, 2007. Currently in Senate Judiciary Committee

Comprehensive Crime-Fighting Legislation

Reducing Crime, Recidivism and the State's Prison Population

A provision of this package would require most offenders whose minimum sentence is between 2 and 5 years be sentenced to the Department of Corrections. Were only this provision to pass, the cost to the commonwealth would be \$4.5 million through 2012.

This budget assumes the enactment of this legislation in 2008.

Projected 2008-09 and Five Year Impact of Proposed Legislation if Enacted

	2008-09	2012-13	Total 5 Years
Reduction in Offender Population (in number of inmates)	-371	-605	
Savings to Department of Corrections	-\$2,600,000	-\$4,700,000	-\$21,600,000
Change in Number of Offenders on Parole	145	267	
Savings to Parole Board	\$0	-\$6,000,000	-\$13,000,000

Improving the Commonwealth's Emergency Preparedness Response and Capabilities

The 2008-09 budget crafts a comprehensive blueprint for the commonwealth's emergency preparedness and response capabilities through the creation of the Department of Emergency Management and Homeland Security. The reorganized department will be capable of quicker responses and be able to provide increased assistance to commonwealth residents during times of threat.

- ✓ Merging the Pennsylvania Emergency Management Agency and the Office of Homeland Security into the Department of Emergency Management and Homeland Security – a Cabinet-level agency
- ✓ **20 additional positions** for the Department of Emergency Management and Homeland Security as part of the implementation of the comprehensive blueprint
- ✓ **6 positions** transferred from the Executive Offices to the department
- ✓ **10 additional positions** to be filled in the current year to increase management oversight of homeland security programs
- ✓ **\$308,000 in the current year** to begin implementation immediately

Improving the Commonwealth's Emergency Preparedness Response and Capabilities

The 2008-09 budget crafts a comprehensive blueprint for the commonwealth's emergency preparedness and response capabilities, which includes:

- ✓ Requiring the new Department of Emergency Management and Homeland Security to coordinate all emergency management and response efforts across all state agencies;
- ✓ Developing a more aggressive and fiscally responsible model for distributing federal and state money;
- ✓ Bolstering the Governor's Emergency Management council with additional members and new responsibilities;
- ✓ Developing partnerships with local governments, the private sector and the federal government;
- ✓ Launching a Citizen Preparedness Campaign to establish Pennsylvania as a leader in making private business and individual citizens partners with government in preparing for and responding to disasters;
- ✓ Pursuing an update to the Pennsylvania Emergency Management Services Code. These statutory provisions must be amended to reflect lessons learned from the attacks of September 11, 2001 and Hurricane Katrina in 2005; and
- ✓ Institutionalizing the National Incident Management System (NIMS), which was developed so that responders from different jurisdictions and disciplines can work together to better respond to natural disasters and emergencies, including acts of terrorism.

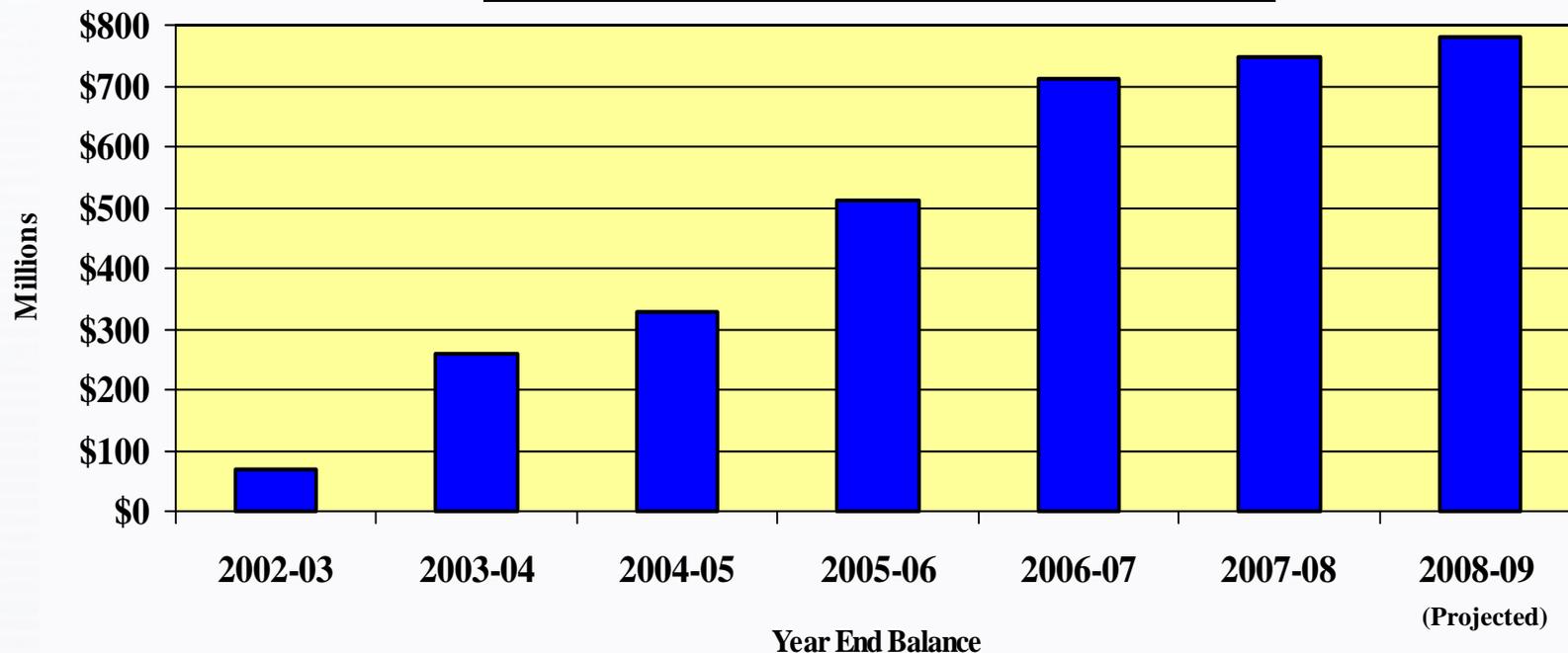
2008-09 Budget Overview

The Rainy Day Fund

Status of Pennsylvania's Rainy Day Fund

Through disciplined budget administration, the Rendell Administration has been able to increase the balance in the Rainy Day Fund from \$70 million in 2002-03 to more than \$700 million today, more than a ten-fold increase. This budget proposes short-term borrowing from the Rainy Day Fund of \$130 million in 2007-08. The transfer will support the \$130 million Protecting Our Progress Tax Rebates for qualifying taxpayers. The Rainy Day Fund will be fully reimbursed for the cost of these rebates at the end of 2007-08 through the statutory transfer of 25% of the General Fund year-end surplus.

RAINY DAY FUND BALANCES



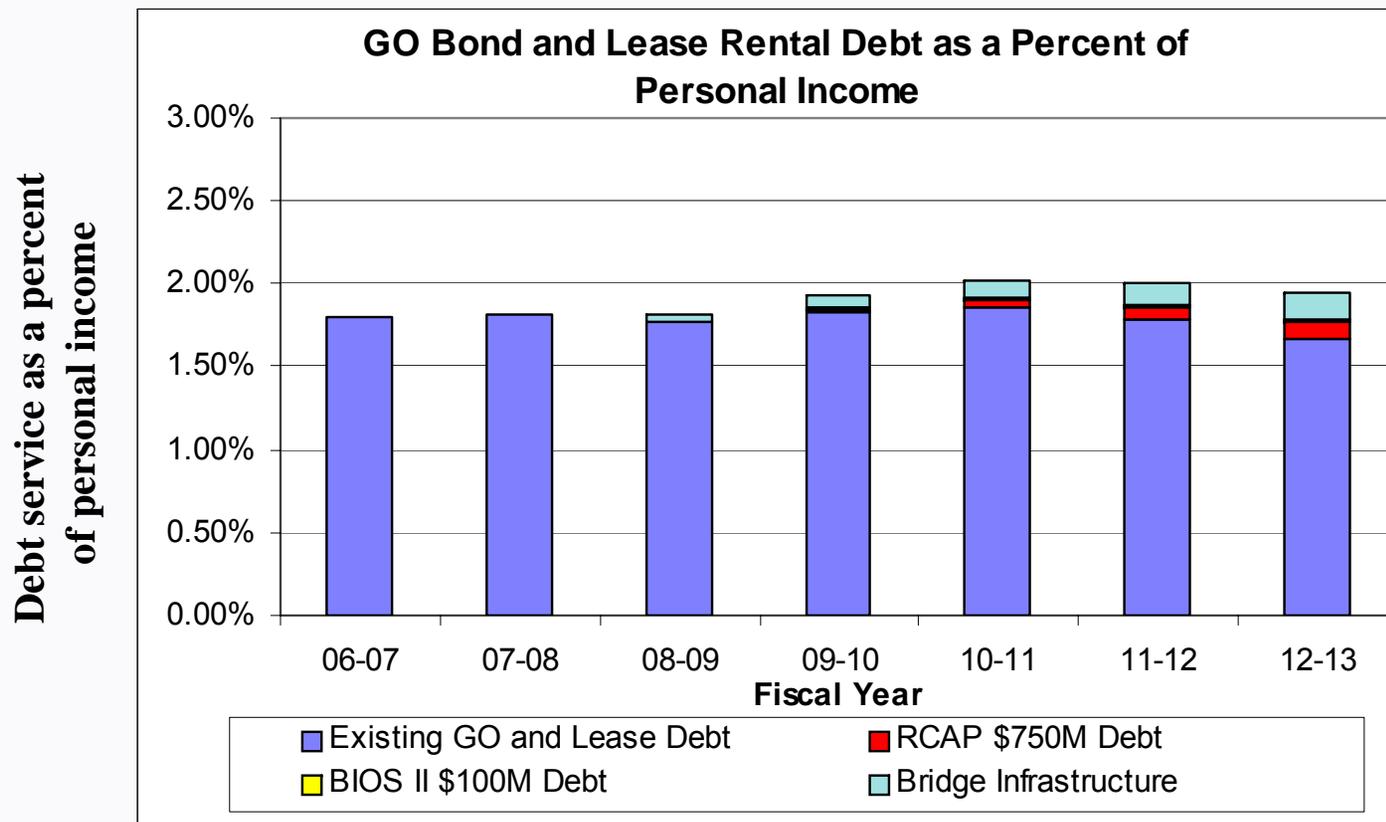
2008-09 Budget Overview

Debt:

**Pennsylvania Will Continue to Have a
Low Debt Burden Under Governor
Rendell's Budget Plan**

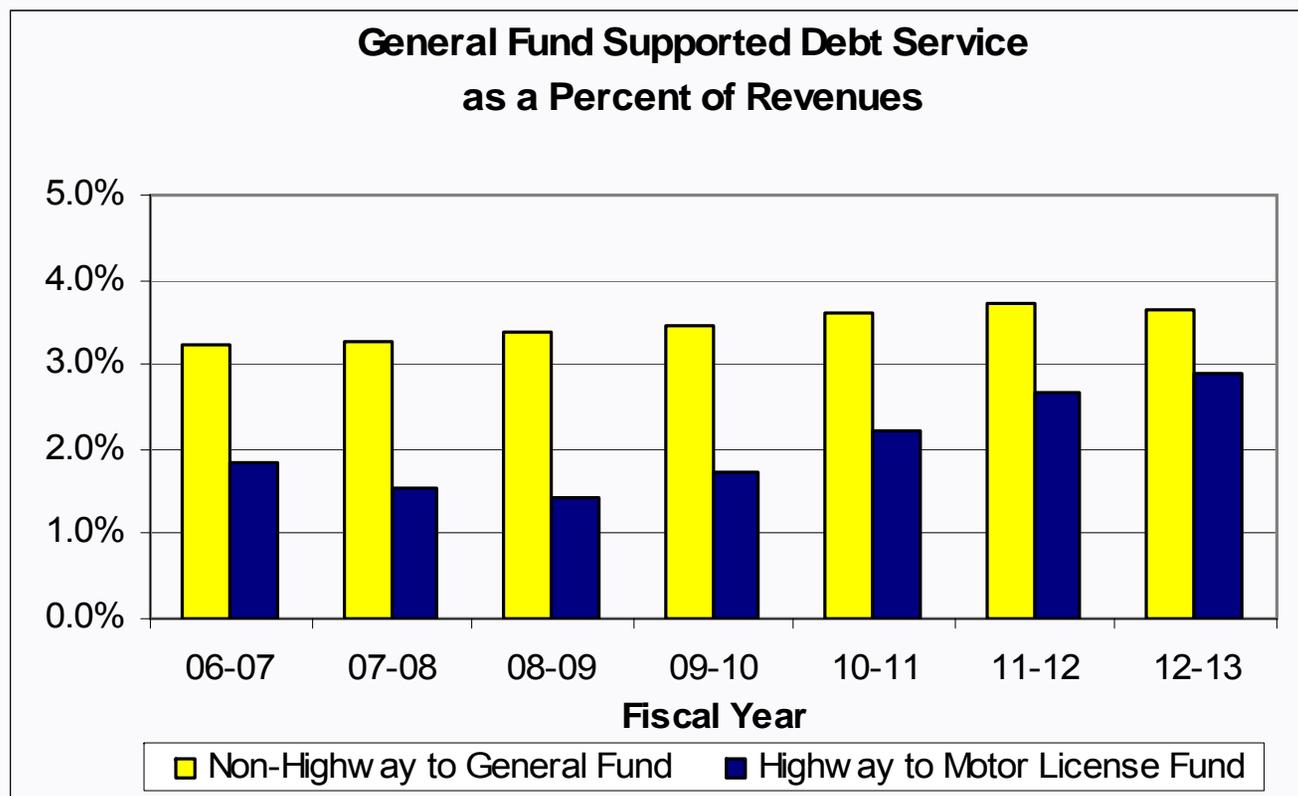
Pennsylvania Will Continue to Have a Low Debt Level

Even after factoring in the Protecting Our Progress initiatives, Pennsylvania's debt service as a percent of personal income will remain below the generally accepted criteria of 3 percent for issuers considered to have a "low debt burden."



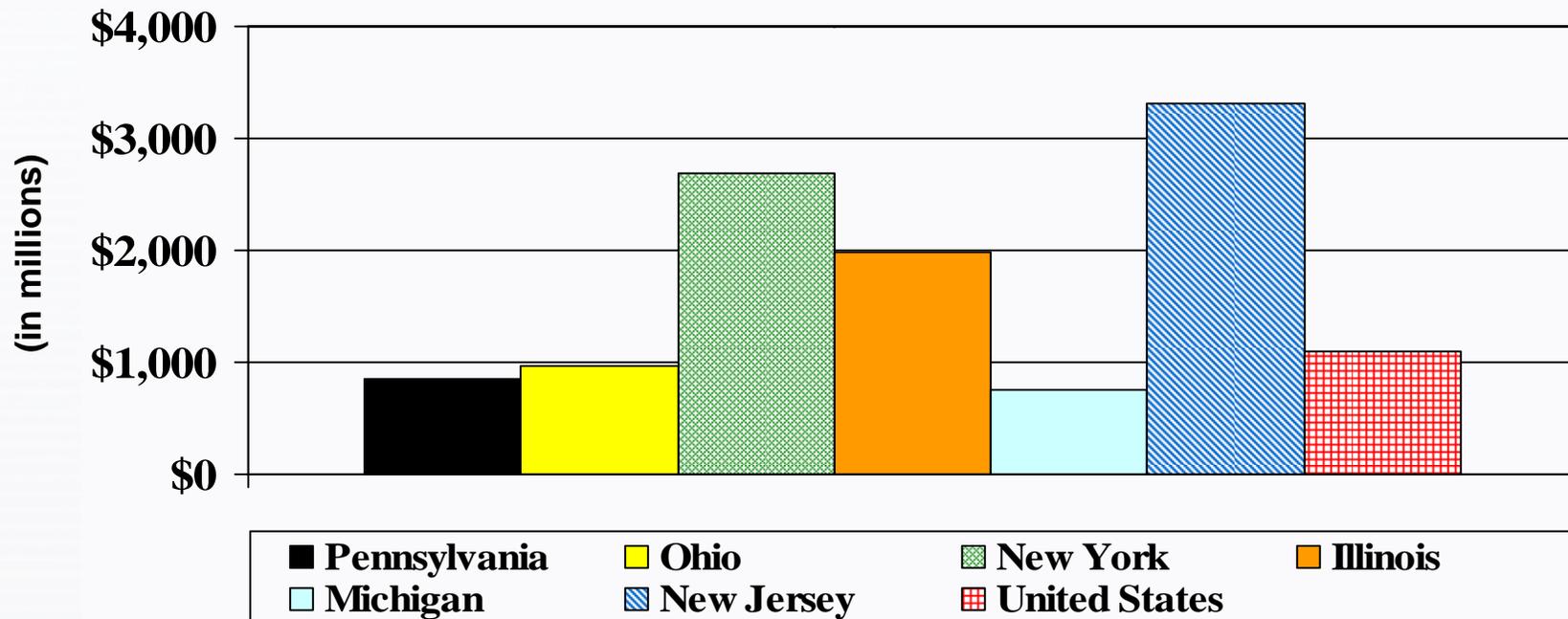
Pennsylvania Will Continue to Have a Low Debt Level

In 2008-09 the commonwealth will spend \$923 million, or 3.3 percent of its General Fund budget, on Debt Service. The commonwealth's General Fund debt service as a percent of revenues remains below the generally accepted criteria of 5 percent for issuers considered to have a "low debt burden." The commonwealth issues debt to pay for capital enhancements to state-owned facilities, environmental remediation and economic development projects.



Net Tax-Supported Debt Per Capita

Pennsylvania's ranking on debt places it in the middle of the pack among the states but well below neighboring states like New York, New Jersey and Ohio, and well below the mean of all 50 states.



Source: Moody's Investors Service, "2007 State Debt Medians," April 2007

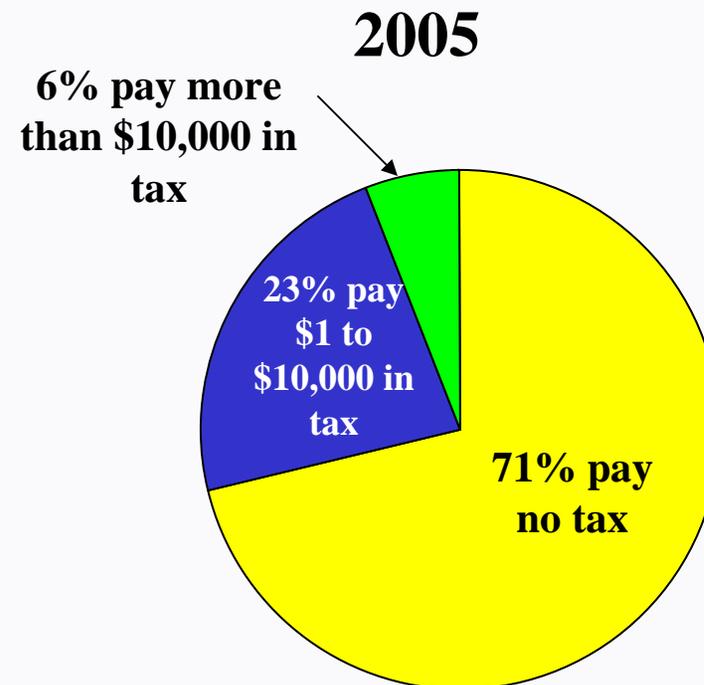
2008-09 Unfinished Business

Business Tax

Reform

Corporate Net Income Tax

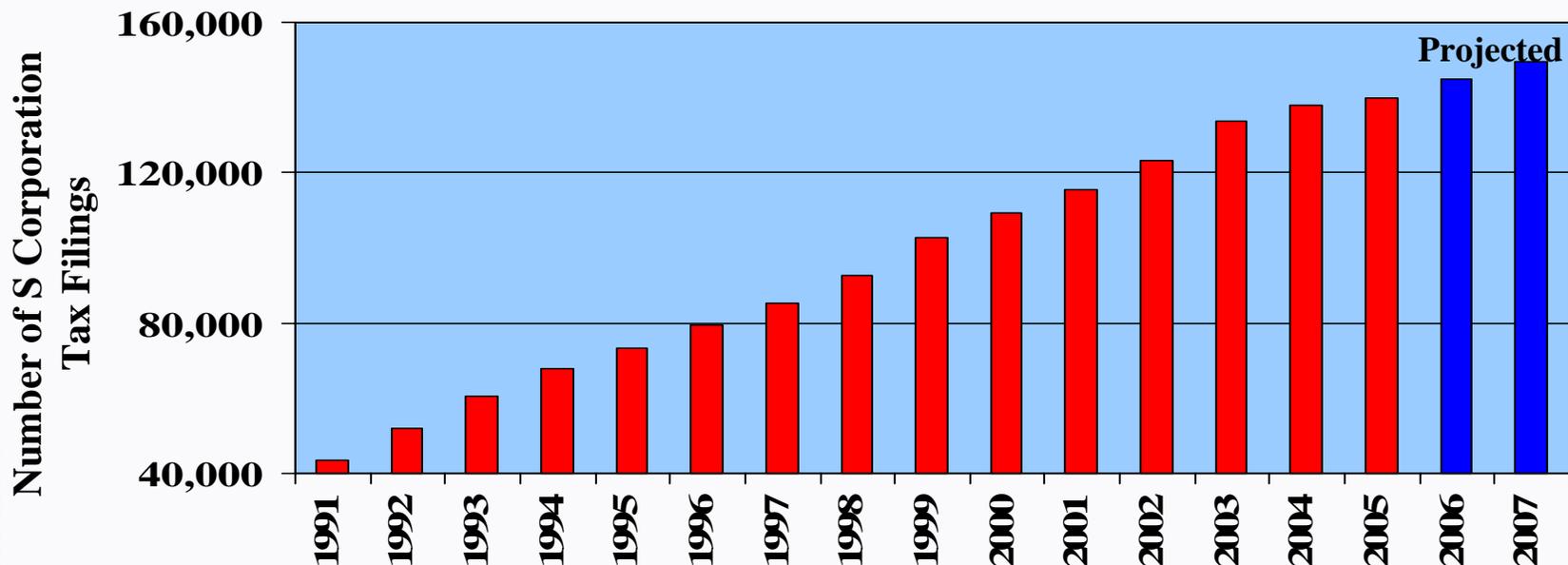
The percentage of Corporate Net Income tax filers with no net income has been steadily increasing – from 64 percent of returns in 1998 to 71 percent of returns in 2005. Nearly 94 percent of all Corporate Net Income Tax filers paid \$10,000 or less in Corporate Net Income taxes during 2005.



Pennsylvania S Corporation Tax Filings

Corporations that elect Pennsylvania “S corporation” status are exempt from the Corporate Net Income Tax. Pennsylvania S corporation shareholders instead include their share of Pennsylvania S corporation income in their Pennsylvania Personal Income Tax filings. This effectively allows corporations to pay their business income tax at the Personal Income Tax rate of 3.07 percent rather than the Corporate Net Income Tax rate of 9.99 percent. In 2008-09, the Department of Revenue estimates that S corporations will pay nearly \$895.2 million less in taxes to Pennsylvania because of this allowance.

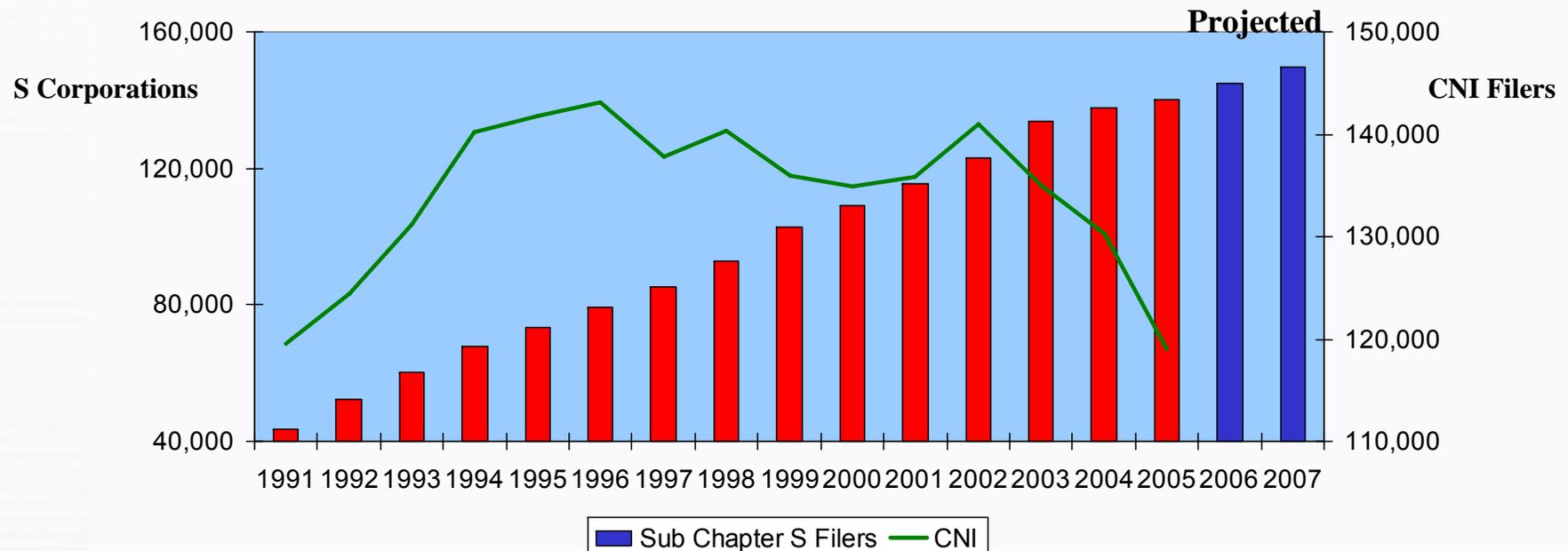
From 1991 to 2005, the number of S corporations grew by 221 percent, an average annual growth rate of 15.8 percent.



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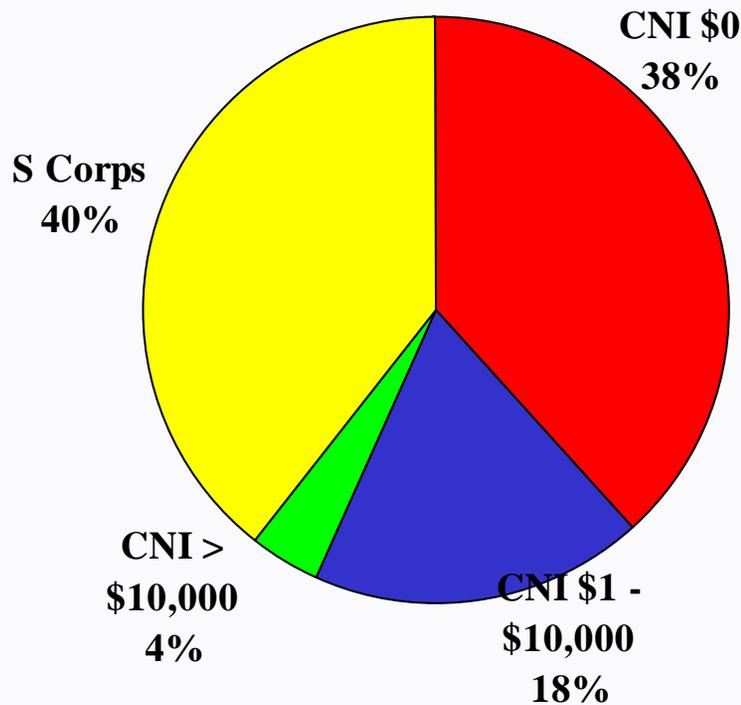
From 1991 to 2005, the number of S corporations grew by 221 percent, an average annual growth rate of 15.8 percent. At the same time the number of S corporations has been increasing, the number of Corporate Net Income Tax filers has decreased.



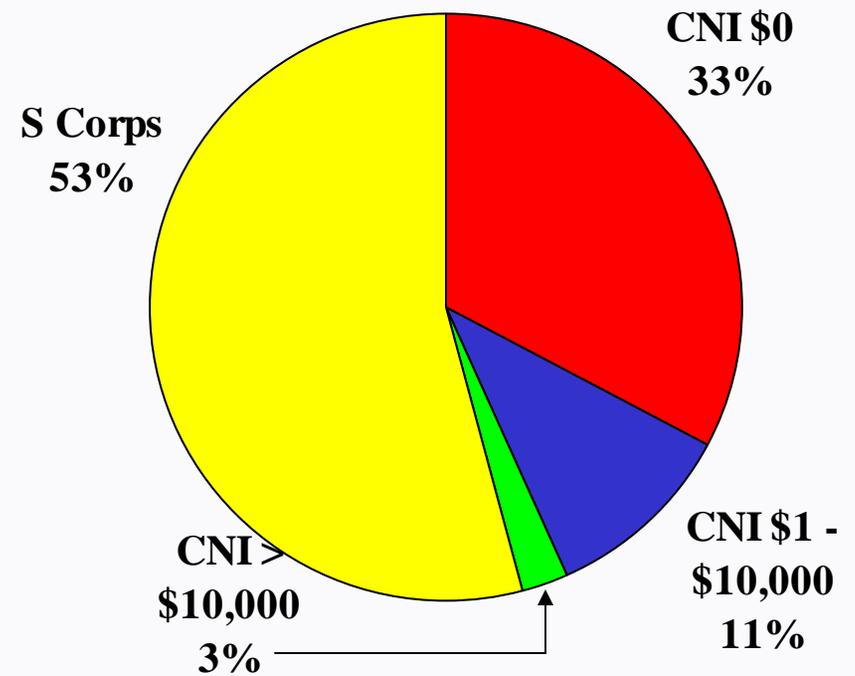
Total Business Tax Filers

An increasing percentage of the commonwealth's business taxpayers are paying their business taxes at the S Corporation rate of 3.07 percent or are paying less Corporate Net Income Tax.

1998



2005



Business Tax Reform – Still Needed

In March 2004, the Governor created the Business Tax Reform Commission to recommend changes to make Pennsylvania's business tax structure more competitive. The Commission made the following unanimous recommendations to improve Pennsylvania's business tax climate.

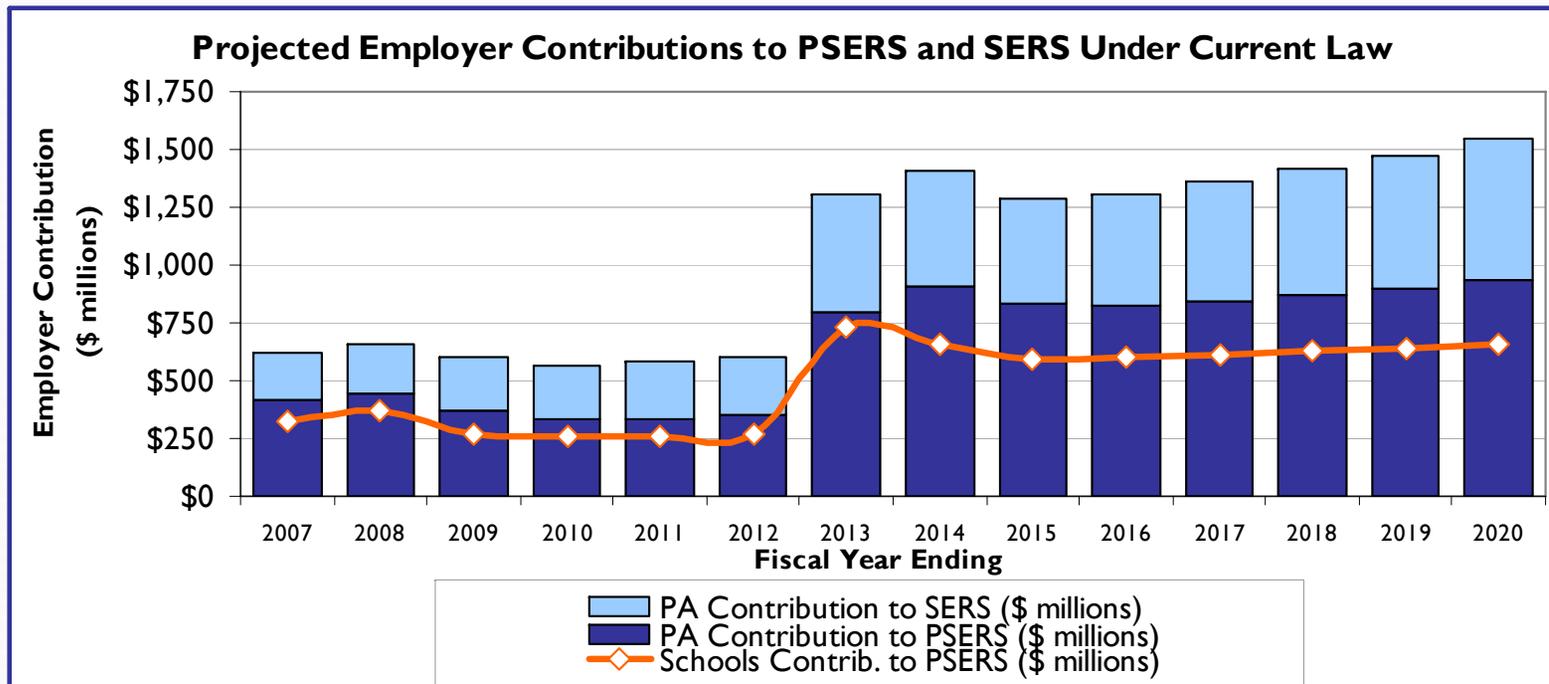
- ✓ Reduce the Corporate Net Income (CNI) Tax rate to 7.90 percent. **This historic reduction will lower the CNI Tax rate by more than 20 percent from the current 9.99 percent rate.**
- ✓ Eliminate the annual cap on Net Operating Losses.
- ✓ Continue the scheduled phase-out of the Capital Stock and Franchise Tax.
- ✓ Change the weighting of the sales factor of the CNI Tax apportionment formula to 100 percent. **This will encourage employers to locate or expand production in Pennsylvania.**
- ✓ Shift to market-based sourcing in the CNI Tax apportionment formula for the sale of services. **This will encourage growth in service-related industries.**
- ✓ Reform Pennsylvania's tax appeals process and related administrative procedures.
- ✓ Implement a mandatory unitary combined reporting system. **Requires members of a unitary group of businesses to combine income and expenses for tax purposes.**

2007-08

Pension Funding Trends and Challenges

Pension Payments *Current and Future Challenges*

The strain caused by sudden increases in pension contributions will become far worse. By 2012-13, projections indicate that the state's contribution to SERS and PSERS will reach \$1.31 billion – an increase of 96 percent from 2007-08.



Pension Funding Trends and Challenges

- Contributions to SERS and PSERS have grown rapidly since 2005, and contributions to both systems are projected to spike in 2012-13.
- The dramatic increases in employer contributions that are forecast in 2012-13 are the result of significant benefit improvements in 2001, reduced stock market returns in the early 2000s, a cost-of-living adjustment to pensions in 2002 and other legislative changes that reduced and delayed contributions.
- Recent legislation and strong investment performances through June 2007 have somewhat reduced the projected 2012-13 increase in contributions; but the commonwealth cannot prudently count on investment returns alone to eliminate these dramatic increases in contribution rates.
- Recent projections that the rate spike will be lower in 2013 than previously expected could be reversed if market performance fails to meet current targets.

Pension Funding Trends and Challenges

- 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.

SERS and PSERS as of 2006/07

	Active Members	Assets ¹	Funded Ratio	Employee Contribution ²
SERS ³	110,972	\$28.1 B	92.7%	6.2%
PSERS ³	264,023	\$57.2 B	85.8%	7.3%

1. Actuarial value

2. Average employee contribution as a percentage of payroll

3. Per most recent published actuarial valuations (PSERS -2007; SERS -2006)

- The commonwealth pays 100 percent of the employers' 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 Funding Trends and Challenges

- Contributions to SERS and PSERS have grown rapidly since 2005, and contributions to both systems are projected to spike in 2012-13.

	FY2007-08 (\$ millions)	FY2008-09 (\$ millions)*	2007-08 to 2008-09 % Change	Projected FY2012-13 (\$ millions) *	2007-08 to 2012-13 % Change
SERS	\$216	\$225	4.2%	\$510	131.6%
PSERS	\$451	\$475	5.3%	\$799	77.1%
Total	\$667	\$700	5.0%	\$1,309	96.2%

- The dramatic increases in employer contributions in 2012-13 are the result of significant benefit improvements in 2001, reduced stock market returns in the early 2000s, a cost-of-living adjustment to pensions in 2002 and other legislative changes that reduced and delayed contributions.
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- Recent projections that the rate spike will be lower in 2013 than previously expected could be reversed if market performance fails to meet current targets.

2007-08

Spending Growth: Pennsylvania Compared to Other States

National Growth in General Fund Budgets

Thirty-six of the 49 other states reported 2007-08 enacted budgets exceeding Pennsylvania's 3.2 percent rate of growth in 2007-08. The average spending increase for all states, compared to the prior year, was 6.2 percent in 2007-08.

All-States Average: 6.2%

Oregon	31.0%	Arkansas	7.1%	Arizona	3.9%
Montana	24.0%	Minnesota	7.0%	Hawaii	3.4%
Utah	21.3%	Kentucky	7.0%	Pennsylvania	3.2%
North Dakota	17.7%	Missouri	6.5%	Washington	2.4%
Texas	14.5%	Nebraska	5.8%	Maryland	1.8%
Mississippi	12.8%	South Dakota	5.8%	Louisiana	1.2%
South Carolina	12.8%	Rhode Island	5.7%	Vermont	0.8%
New Hampshire	12.1%	Connecticut	5.5%	California	0.6%
West Virginia	11.7%	Delaware	5.5%	Oklahoma	0.0%
North Carolina	10.7%	Wisconsin	5.5%	Florida	-0.2%
Tennessee	10.2%	Georgia	5.3%	Wyoming	-0.6%
New Jersey	10.1%	Maine	5.1%	Massachusetts	-1.3%
Idaho	9.5%	Ohio	5.1%	Virginia	-1.6%
Iowa	8.6%	Illinois	4.8%	New Mexico	-3.8%
Kansas	8.5%	Indiana	4.8%	Nevada	-6.4%
Michigan	8.2%	Colorado	4.8%	Alaska	-20.9%
Alabama	7.1%	New York	4.1%		

Source: NASBO Fiscal Survey of the States, December 2007.

Commonwealth of Pennsylvania
2008-09 Budget Briefing
February 5, 2008

Edward G. Rendell
Governor

Michael J. Masch
Secretary of the Budget

www.pa.gov