



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

FEBRUARY 2, 1999

To my fellow Pennsylvanians:

Pursuant to Article VIII Section 12 of the Constitution of Pennsylvania, and Section 613 of the Administrative Code of 1929 (71 P.S. Section 233) I am today transmitting to your elected representatives in the General Assembly my proposed State budget for the fiscal year that begins July 1, 1999, and ends on June 30, 2000.

As we embark once again on our annual budget deliberations, the state of our Commonwealth is robust and vibrant. More Pennsylvanians are working than ever before and unemployment remains near historic lows. Crime is down, and Pennsylvanians are moving off welfare – and into the workforce – by the tens of thousands. The State's fiscal house is in order too. We've been cutting taxes, saving Pennsylvanians a cumulative total of \$3.9 billion since 1995 and we're working hard to keep them down. We've cut the growth rate of government spending nearly in half, and we're saving much of that money to prevent future tax increases. With this budget, the balance in our Rainy Day Fund is projected to exceed \$785 million compared to its \$66 million balance when this Administration began. Financial experts across the nation have noticed. The three major Wall Street rating agencies each have improved their Pennsylvania rating, saving taxpayers millions through lower interest rates on bond issues.



This budget aspires to continue that momentum as Pennsylvania leaves the 20th Century for the 21st, and the second millennium for the third. It cuts taxes to the General Fund and other funds by more than \$273 million, the largest proposed tax cut of my Administration. Those tax cuts will benefit manufacturers, more than 150,000 small businesses, high-technology start-up companies and some two million Pennsylvania families.

General Fund spending grows by a modest 2.9 percent in this budget, but with significant new investments in priority areas such as education, public safety, technology, children's health care, the environment and support for Pennsylvanians moving from welfare to work.

In summary – this budget cuts taxes dramatically. It invests judiciously. And it does all those things the same way a Pennsylvania family manages its money – by living within our means, and setting some of our money aside for an economic downturn that we know someday will come.

It is my hope that you will find this budget document to be informative and easy to use. Under the direction of my able Budget Secretary, Robert A. Bittenbender, our Office of the Budget last year was honored, for the first time, with the Distinguished Budget Presentation Award by the Government Finance Officers Association for its 1998-99 Governor's Executive Budget. We welcome any suggestions you have to further improve this important publication.

Very truly yours,

Tom Ridge
Governor



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO
Commonwealth of
Pennsylvania

For the Fiscal Year Beginning
July 1, 1998

Douglas R. Elsbarnth
President

Jeffrey L. Esch
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Presentation to the Commonwealth of Pennsylvania for its annual budget for the fiscal year beginning July 1, 1998. The award is valid for a period of one year.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

Prepared by the
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Robert A. Bittenbender, Budget Secretary
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P E N N S Y L V A N I A

1999-2000
BUDGET IN BRIEF

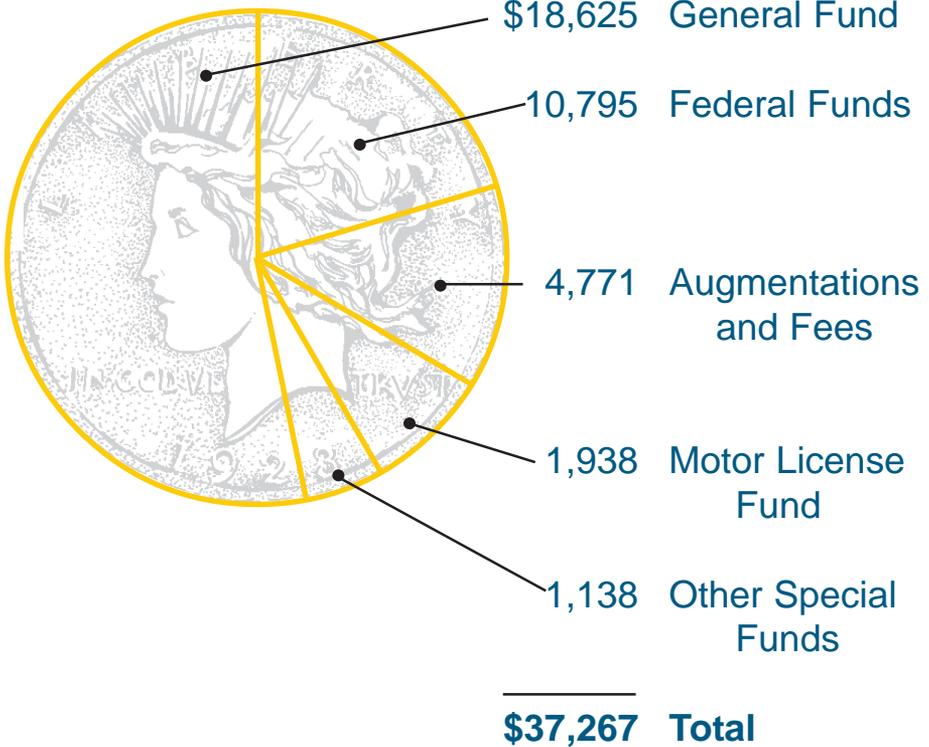


COMMONWEALTH
BUDGET

1999-2000 Total Recommended Budget

(All Funds)*

Dollars in Millions



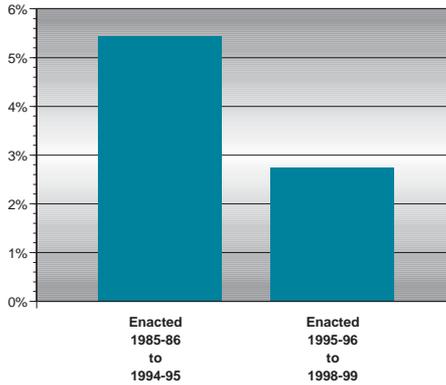
The budget submitted by the Governor to the General Assembly includes funds from the five sources shown here and totals \$37.3 billion.

* Operating only; excludes capital.

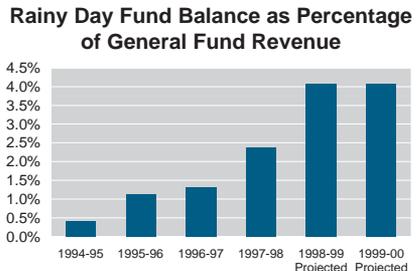
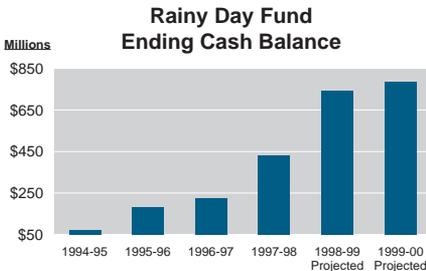
1999-2000 GOVERNOR'S RECOMMENDED BUDGET

Governor Ridge's 1999-00 Budget continues his five year record of tax cuts and fiscal discipline with responsible spending.

- The proposed 1999-00 General Fund Budget is \$18.6 billion, an increase of \$527 million or 2.9 percent. Governor Ridge's four enacted budgets have had an average spending growth of 2.75 percent. The average growth in the enacted budgets during the previous ten-year period was 5.44 percent.



- \$273 million (for all funds) in tax reductions are proposed in 1999-00 to help families and to stimulate job creation and retention.
- With the transfer at the end of 1999-00, the reserve balance in the Commonwealth's Rainy Day Fund will exceed \$785 million, nearly twelve times the balance in 1994-95.



PROPOSED TAX REDUCTIONS

(Dollar Amounts in Thousands)

Gross Receipts Tax:

Repeal Tax on Natural Gas \$ -82,200
The gross receipts tax on receipts of regulated gas companies from the sale of natural and artificial gas is proposed to be repealed effective January 1, 2000. This will directly reduce the gas bills for over 2 million Pennsylvania consumers. *

Capital Stock and Franchise Tax:

Reduce Tax Rate -100,100
The existing total 11.99 mill tax rate is proposed to be reduced by 1.0 mills to 10.99 mills effective January 1, 1999.**

Reduce the Minimum Tax Payment -16,200
A \$100 reduction to \$200 for the minimum tax paid by a majority of the businesses paying the capital stock and franchise tax is proposed to become effective January 1, 1999. Approximately 150,000 small business firms will benefit from this reduction.

Corporate Net Income Tax:

Increase Net Operating Loss Recovery Cap to \$2 M -35,500
The annual cap on deductions for net operating losses that may be taken in each of the ten (10) years following the loss is proposed to be increased to \$2 million effective for tax years beginning on and after January 1, 1999.

Income Apportionment - Sales Factor -31,500
The sales factor used in the apportionment formula to calculate Pennsylvania taxable income for the corporate net income tax is proposed to be weighted 60%, an increase from the current 50% weighting. The other factors in the formula are corporation property value and payroll. The change is proposed to be effective for tax years beginning on and after January 1, 1999. Up to 6,000 firms, especially corporations that invest in Pennsylvania, such as manufacturers that make their products here, will benefit from this change.

Proposed Tax Reductions *(continued)*

Personal Income Tax:

Expand Tax Forgiveness \$ -7,500

The eligibility income limit for each dependent to qualify for tax forgiveness under the special tax provisions is proposed to be increased from \$6,000 to \$6,500, effective January 1, 1999. A qualifying family of four with two claimants and two dependents will owe no tax on taxable income up to \$26,000, saving that family \$728 a year.

TOTAL TAX REDUCTIONS..... \$-273,000

* The elimination of the gross receipts tax on natural gas will reduce the revenues from this tax for the Alternative Fuels Restricted Receipt Account.

** This includes a 0.25 mill reduction to the portion of this tax dedicated to the Hazardous Sites Cleanup Fund. This will make the total rate reduction for the Capital Stock and Franchise tax equal to 1 mill.

RETAINING AND CREATING JOBS

The goal of this program is to retain and create family-sustaining jobs through tax cuts; provision of capital, technology, marketing and support services to employers; and provision of support and guidance to communities for their development and economic growth.

The 1999-00 Budget includes the following program changes and funding amounts in pursuit of this program's goal.

STRENGTHENING THE COMMONWEALTH'S JOB CLIMATE

TAX CUTS FOR JOBS

- The Capital Stock and Franchise Tax rate will be reduced by one mill to 10.99 mills per dollar of capital stock value. The cut will lower the tax bill of approximately 60,000 businesses for what is the most uncompetitive state tax on business. Currently, Pennsylvania's capital stock and franchise tax rate is the highest in the nation. The tax is due even if a business has a loss, making this tax particularly burdensome to job creating firms.
- Firms currently pay a minimum Capital Stock and Franchise Tax payment of \$300 annually. It is proposed to reduce the minimum payment by a third to \$200. Approximately 150,000 small business firms will benefit from this reduction.
- The current annual cap on net operating loss deductions of \$1 million will be doubled to \$2 million. Net operating losses experienced by corporations in a tax year will be able to be deducted from profits for Corporate Net Income Tax purposes in an annual amount of up to \$2 million. Expansion of the net operating loss particularly benefits start-up and high technology companies with long product development times.
- The sales factor used in the apportionment formula to allocate Pennsylvania taxable income for Corporate Net Income Tax purpose, will be weighted 60%, an increase from the current 50% weighting. Up to 6,000 firms, especially corporations that invest in Pennsylvania, such as manufacturers that make their products here, will benefit from this change.

ATTRACTING HIGH TECHNOLOGY JOBS

- \$37 million in General Fund monies to be provided through the Ben Franklin / IRC Fund to assist the Commonwealth's business community in implementing Technology 21 recommendations.
- \$18.2 million in General Fund monies to establish the Pennsylvania Technology Investment Authority, that will provide innovative financing for small and medium sized technology firms, stimulate expansion of electronic commerce and coordinate university-based research in high technology fields.
- \$6.7 million over the next two years in State funds will leverage public and private funds to continue a \$50 - \$70 million Catalyst Stage Fund, monitored by Team PA to provide venture capital financing to companies ready for accelerated growth.
- \$4 million for Interactive Marketing that will begin the shift of resources to Internet-based marketing for business attraction and the attraction and retention of students and knowledge workers.
- \$2.5 million for information technology enhancements for automation and enhancement of current systems to allow for receiving electronic commerce.



WORKFORCE DEVELOPMENT STRATEGY

- \$29 million for customized job training to ensure Commonwealth citizens are equipped for employment in new and growing businesses.



- \$17.2 million to establish science and technology scholarships for qualified Pennsylvania residents enrolling in certain high technology fields. This new scholarship program will expand to nearly \$50 million in three years and benefit up to 23,000 students.
- \$2 million for a Career Marketplace Development system to improve the delivery of job training services.

INTERNATIONAL TRADE/EXPORT

- \$1.5 million increase to expand international offices.
- \$350,000 increase for Local Development Districts to continue to promote export opportunities to Pennsylvania companies.



ASSISTANCE FOR EMPLOYERS

- \$60 million for programs to develop infrastructure and provide incentive grants to businesses wishing to expand or relocate in the Commonwealth.
- \$10 million to the Small Business First Fund to support loan programs totaling \$41 million to aid in expansion, pollution abatement, and export development of small businesses.

AIDING AND PROMOTING AGRIBUSINESS

- \$3.3 million for planning and prevention of the discharge of agricultural nutrient pollutants.
- \$3.1 million for Agricultural Research to enhance the quality and quantity of agricultural products.
- \$1.1 million for Product Promotion, Education, and Exports to develop and expand domestic and international markets for Pennsylvania agricultural products.



- \$470,000 increase to improve agricultural commodity safety and stability, including improved weights and measures testing, enhanced food safety inspections process, and additional laboratory testing capability.
- \$175,000 for a protection and control protocol to prevent the spread of Johne's Disease in livestock, and plans for controlling animal health emergencies arising from foreign livestock diseases.

REINFORCING OUR COMMITMENT TO TOURISM



- \$4 million to facilitate regional tourism marketing through coordination of local efforts.
- \$3.5 million for increased radio and television advertising.
- \$500,000 increase for Tourist Promotion Assistance matching funds for local tourist promoting agencies resulting in a total of \$9.5 million in State funds for marketing the cultural and historical assets of the Commonwealth.



EDUCATION

The goal of this program is to provide a system of learning experiences and opportunities which will permit all Pennsylvanians to achieve their potential.

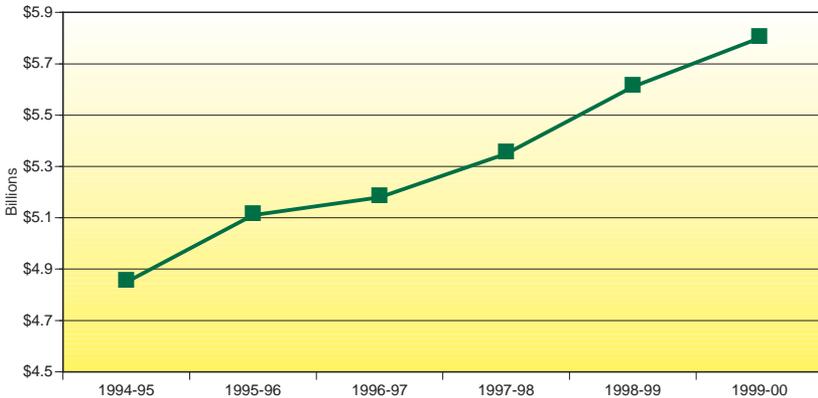
The 1999-00 Budget recommends the following program changes and funding amounts in pursuit of this program's goal.

BASIC EDUCATION

- \$5.8 billion in State support provided to the 501 local school districts.
- Increased funding is available to Pennsylvania public schools by over \$245 million. It includes \$55 million in savings that will accrue to local school districts, intermediate units and vocational-technical schools due to a reduction in the employer contribution rate for school employees' retirement.
- Of the total \$3.68 billion Basic Education Subsidy provided to school districts, 23 percent (\$837 million) goes to the poorest 125 school districts which have 14 percent of all public school students; and 13 percent (\$480.2 million) goes to the wealthiest 125 school districts which have 30 percent of all public school students. Commonwealth support on average is equal to \$3,356 per student for the poorest school districts and \$900 per student for the wealthiest school districts.
- \$107.1 million increase, or 3 percent, in Basic Education Funding.
- \$63.6 million for Educational Opportunity Grants to enable parents to choose the school best suited to their children's needs.
- \$35 million to begin the new Read to Succeed initiative that will ensure Pennsylvania's school children learn to read by grade 3.
- \$33.9 million increase, or 5 percent, for Special Education funding.
- \$16.8 million, a 25 percent increase, in funding for the School Performance Incentive Program begun two years ago that rewards schools that significantly improve their academic achievement and effort.



State Support for Local School Districts



Commonwealth appropriations in direct support of local school districts have increased since 1994-95 by nearly \$1 billion.

- \$4.8 million in funding to provide a professional development program to over 61,000 teachers to ensure the successful integration of the enhanced PA Assessment Test and new academic standards.
- \$3.4 million in funding associated with Charter Schools to continue to provide communities with opportunities to create new, innovative and accountable public education choices for parents and children, including \$624,000 to establish the Charter School Appeal Board.
- \$1.6 million increase for Vocational Education, including \$500,000 in additional funding for incentive grants to enhance work-based learning opportunities.
- \$1.5 million total increase for Safe Schools and Alternative Schools Programs.
- \$1.2 million increase to strengthen the PA Assessment Test that is essential to implement new academic standards.
- \$600,000, or five percent, increase in support of adult literacy programs.
- \$500,000 increase for grants to encourage local education agencies to consolidate administrative and possibly instructional functions.
- \$400,000 to establish the Governor's School for Information Technology.

Commonwealth Appropriations in Direct Support of Local School Districts*



| | (Dollar amounts in thousands) | | |
|--|-------------------------------|----------------------|--------------------|
| | 1997-98 Actual | 1998-99 Available | 1999-00 Budget |
| Basic Education Funding | \$ 3,449,457 | \$3,570,188 | \$3,677,294 |
| Special Education | 631,707 | 677,611 | 711,492 |
| Pupil Transportation | 347,192 | 367,444 | 381,129 |
| School Employees' Social Security | 328,100 | 343,800 | 350,328 |
| Authority Rentals and Sinking Fund | | | |
| Requirements | 239,906 | 253,766 | 253,766 |
| Early Intervention | 76,648 | 81,455 | 84,719 |
| Special Education - Approved Private | | | |
| Schools | 56,375 | 58,066 | 59,808 |
| Nonpublic Pupil Transportation | 38,272 | 54,926 | 54,379 |
| Vocational Education | 44,626 | 49,888 | 51,523 |
| Tuition for Orphans and Children Placed in | | | |
| Private Homes | 35,045 | 38,375 | 40,079 |
| Read to Succeed | 0 | 0 | 35,000 |
| PA Charter Schools for the Deaf and Blind | 20,573 | 22,861 | 23,547 |
| Technology Initiative | 36,333 | 36,333 | 20,000 |
| Performance Incentives | 10,415 | 13,415 | 16,769 |
| School Food Services | 16,961 | 16,723 | 16,723 |
| Intermediate Units | 5,500 | 5,693 | 5,835 |
| Alternative Schools | 4,691 | 5,200 | 5,700 |
| Safe Schools | 500 | 1,000 | 2,000 |
| Teen Pregnancy and Parenthood | 1,295 | 1,500 | 1,500 |
| Administrative/Instructional Consolidation | 0 | 1,000 | 1,500 |
| Education Mentoring | 1,073 | 1,200 | 1,200 |
| Education of Migrant Laborers' Children | 278 | 248 | 727 |
| Homebound Instruction | 574 | 686 | 643 |
| School-to-Work Opportunities | 482 | 500 | 500 |
| Comprehensive Reading | 300 | 300 | 300 |
| Payments in Lieu of Taxes | 172 | 182 | 182 |
| Education of Indigent Children | 103 | 110 | 113 |
| Instructional Support Teams | 5,336 | 0 | 0 |
| School District Demonstration Projects | 800 | 4,100 | 0 |
| TOTAL | \$5,352,714 | \$5,606,570 | \$5,796,756 |

* Includes appropriations which are distributed to school districts, intermediate units, area vocational-technical schools and special schools. These appropriations are included in the more expansive Basic Education Subcategory which is contained within this department's presentation in the Governor's 1999-00 Recommended Budget.

In addition to the above funding, decreases in the employer contribution rate for school employees' retirement will save local education agencies approximately \$55 million in 1999-00. Over the four-year period, 1996-97 through 1999-00, the cumulative savings to local education agencies will be approximately \$580 million.

PROJECT LINK TO LEARN

- \$34 million is provided to extend for one year the Link to Learn initiative, including:
 - 4 \$20 million in funding to local school districts to implement regional action plans that create community-wide networks and provide for connection to the Pennsylvania Education Network.
 - 4 \$10 million in funding for higher education grants focused on innovative approaches to community-based networking for the implementation of the Pennsylvania Education Network and curriculum development for information science and technology programs.
 - 4 \$4 million in funding to expand and enhance the technological capabilities of nonpublic schools and enable them to connect to the networks that will form the Pennsylvania Education Network.





HIGHER EDUCATION

- \$26.4 million, or 2.5 percent, increase for the State System of Higher Education and the four State-related universities. The funding increases are as follows:

| | <u>(in Millions)</u> |
|--|----------------------|
| State System of Higher Education | \$ 10.7 |
| State-Related Universities: | |
| Penn State University | 7.4 |
| University of Pittsburgh | 4.0 |
| Temple University | 4.0 |
| Lincoln University | <u>0.3</u> |
| Total | \$ <u>26.4</u> |

- \$5 million, or three percent, increase for Pennsylvania’s community colleges.
- \$13.3 million, or five percent, increase for the ongoing Grants to Students program, and \$500,000 to establish the Keystone Academy at Cheyney University.
- \$1 million, or a 12.8 percent increase, to enhance higher education services for educationally and economically disadvantaged students.

PROTECTION OF PERSONS AND PROPERTY

To protect lives and property from crime and natural and man-made disasters.

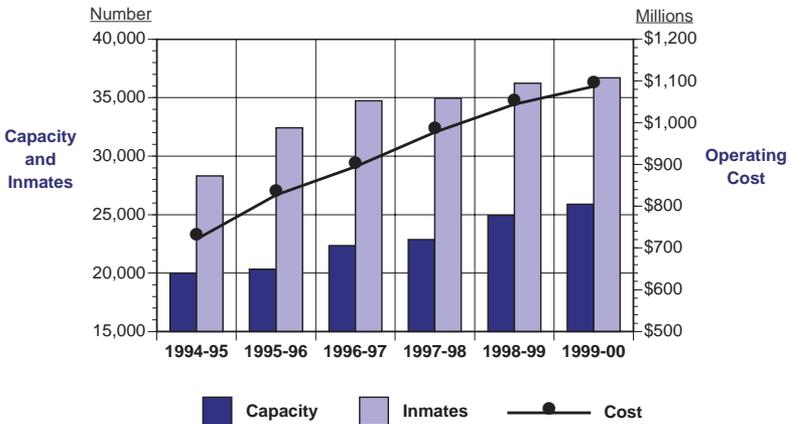
The 1999-00 Budget recommends the following program changes and funding amounts in pursuit of this program's goal.

LAW ENFORCEMENT

- \$8.5 million increase to the State Police to establish the Incident Information Management System, provide technology support for the Commonwealth Law Enforcement Network, and improve the Uniform Crime Reporting System.
- \$4.6 million for the training of 347 State Police cadets and their service as troopers during 1999-00.
- \$4.7 million to open a new 500 bed State correctional institution in Indiana County to house young adult offenders.

State Correctional Institutions

Cell Capacity, Inmate Population and Operating Costs



- \$3.3 million to replace or upgrade equipment used for criminal investigations and law enforcement and to improve the working environment at stations for law enforcement.
- \$2.9 million to improve the Department of Correction's information technology including video conferencing, network enhancements and expansion of computerization.

- Establish a system to reimburse the Commonwealth for the costs of providing local law enforcement services to certain communities which do not provide police protection to their citizens.
- \$1.9 million to make renovations at the Quehanna Boot Camp to provide 120 additional beds for offenders.
- \$1.9 million to expand vocational education programming at various State correctional institutions.
- \$1.2 million for a 166 bed housing unit for the State Correctional Institution at Cambridge Springs.
- \$1.4 million for statewide radio system equipment for the Attorney General.
- \$1.2 million for equipment to improve the Attorney General's capability to investigate Internet crime.
- \$1 million for security enhancements at State correctional institutions including security fencing, video security systems and additional corrections officers.
- \$1 million for traditional and vocational education at a new State Correctional Institution in Indiana County.
- \$1 million in State funds and \$404,000 in Federal funds to expand the Residential Substance Abuse Treatment Program and to automate various systems to enhance public safety.
- \$635,000 to expand successful law enforcement activities such as Operation Triggerlock, a joint effort with local and Federal agencies to suppress violent crime in urban neighborhoods. Operation Triggerlock received national recognition for quality in law enforcement.



CRIME PREVENTION

- \$5 million to expand school-based, intensive supervision and aftercare services for juvenile offenders.
- \$3.8 million for expanded rights and services for victims of juvenile crimes.
- \$2 million to expand the current risk-focused prevention programs targeted toward juveniles.

- \$1 million to expand county administered drug and alcohol treatment services for non-violent offenders included within the Intermediate Punishment Program that provides alternatives to incarceration.
- \$1 million to support a partnership of State, local and community leaders to assist local communities in establishing programs and services to reduce violence by and against children and youth.



PROTECTING PENNSYLVANIA’S ENVIRONMENT

- \$1.3 billion in restructured current funding to address major environmental issues of the 21st Century including:
 - 3 \$425 million over five years from the Environmental Stewardship Fund to expand Commonwealth efforts for acid mine drainage abatement, water quality protection and community conservation efforts.

Five year commitments will include:

- \$160 million for State and local efforts to expand acid mine drainage abatement and plug abandoned oil and gas wells.
 - \$95 million to reduce nonpoint source pollutions.
 - \$25 million to repair and construct new water and sewer infrastructure.
 - \$95 million to repair and rehabilitate water and sewer facilities, roads, bridges, dams, campgrounds, comfort stations and buildings on State lands.
 - \$50 million to support community conservation efforts such as additional open spaces, greenways, bike and rail trails and river corridors.
- 3 \$900 million over five years in PENNVEST loans will be available utilizing revised criteria to encourage sound land use planning and management when constructing or rehabilitating water and sewer infrastructure.
 - \$2 million to coordinate and cooperate with local governments to identify sound land use practices.
 - \$1.7 to expand the utilization of environmental technologies.
 - \$1.1 million to expand support for water-quality protection efforts.

HEALTH AND HUMAN SERVICES

The goals of this program are to ensure that citizens of the Commonwealth have access to a comprehensive quality medical care system; to help people attain self-sufficiency through employment, training, child care and cash assistance; to provide veterans' assistance; and, to provide a system of services that maximize the capacity of individuals and families to participate in society.

The 1999-00 Budget recommends the following program changes and funding amounts in pursuit of this program's goal.

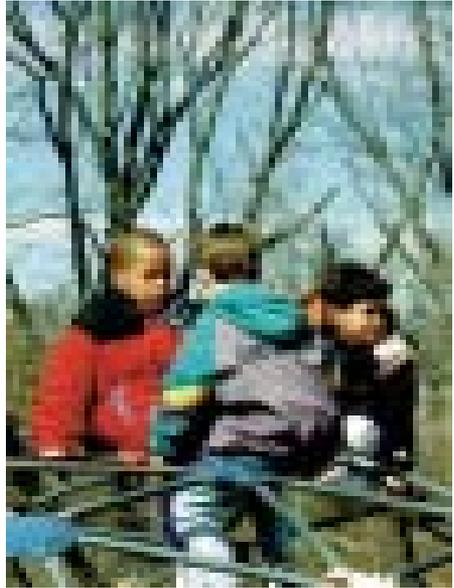
CHILDREN'S HEALTH INSURANCE PROGRAM

- \$20 million to increase enrollment to 134,000 children in 1999-00. This increase will bring Pennsylvania closer to its goal of providing all eligible children with free or subsidized health care.
- \$12 million increase to provide Medical Assistance coverage for children found eligible from CHIP outreach program.
- \$600,000 to increase advertising throughout the Commonwealth so that the parents of all eligible children are aware of the availability of CHIP coverage and are urged to enroll their children in the program. These funds will also provide for a database to track the program as an aid in the effort to expand enrollment.



HELPING PEOPLE HELP THEMSELVES

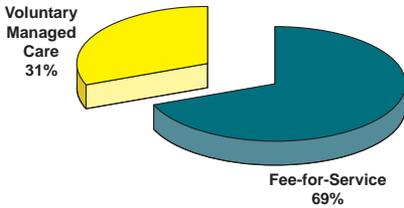
- \$41 million in new Federal funds and \$27 million in existing Federal funds to provide short-term work experience and job readiness training for 16,000 welfare recipients with significant barriers to employment.
- \$22.8 million in additional Federal funds to enable active and former welfare recipients to receive subsidized child care services through the Cash Grants appropriation, freeing-up existing funds in the Child Care Services appropriation to serve 16,000 additional children of low-income working families from the waiting list.
- \$10 million in Federal funds to expand accessibility to child care services for families participating in the subsidized programs by increasing the reimbursement rate ceilings for subsidized child care providers to better reflect current market rates.
- \$300,000 in additional Federal funds to increase the quality and availability of health, safety and early childhood development training information for relative and neighbor child care providers.
- \$4.4 million in Federal funds to improve access to jobs by creating and operating nontraditional mass transit routes and schedules.
- \$2.8 million in total funds for fatherhood initiatives including parenting and life skills training, job search and pre-employment skills development and supervised visitations.



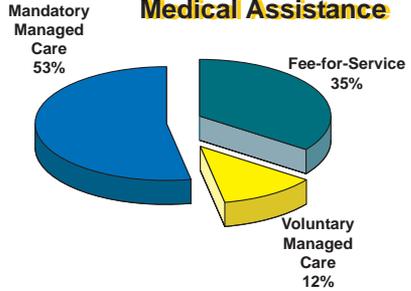
MEDICAL ASSISTANCE

- \$3 billion in State funds to maintain comprehensive medical coverage for nearly 1.5 million children, pregnant women, older Pennsylvanians and people with disabilities meeting current income eligibility guidelines.
- Over \$654 million in total funds to annualize the expansion of Medical Assistance mandatory managed care to the ten counties in Southwestern Pennsylvania.

**FY 1995-96
Medical Assistance**



**FY 1999-00
Medical Assistance**



- \$70 million in total funds for premium increases for managed care organizations under the HealthChoices Southeast Program.
- \$31.3 million in total funds to annualize the implementation of an HIV/AIDS Risk Pool in the HealthChoices Southeast Program.
- \$30.6 million in total funds to provide risk-pooled funds for special populations in the HealthChoices Southeast Program.
- \$28 million in State funds to increase selected Medical Assistance behavioral health service fees in the fee-for-service program.
- \$1.8 million in State funds to detect and deter fraud and abuse in the Medical Assistance program and to improve administration of the Program. This will result in first year State savings of \$9.4 million which will annualize at savings of \$17.5 million.
- \$1.5 million to expand the AIDS Special Pharmaceutical Benefits Program drug formulary for new drug therapies approved by the Federal Food and Drug Administration.
- \$786,000 in total funds to implement a new Medical Assistance hearings and appeals unit that will expedite adjudication of service denials.

HEALTH AND HUMAN SERVICES

- \$40.4 million increase in State funds to continue the County Child Welfare needs-based program.
- \$18.4 million increase in State funds to provide permanent solutions for children in foster or institutional care by expediting judicial review for termination of parental rights.
- \$16.4 million increase in State funds to expand county protective services to assess risk of harm to children and prioritize the response and services to children most at risk.

- \$1.5 million increase in State funds to expand the capacity of the Statewide Adoption Network to finalize adoptions.
- \$2.2 million to convert the Department of Health's mainframe system to a client server system to enhance regulatory and licensing functions, enable network systems to meet Statewide standards, and improve data collection and analysis capabilities.
- \$750,000 increase in State funds to provide rape crisis services to an additional 1,482 individuals.
- \$748,000 to improve assistance to drug and alcohol programs.
- \$592,000 in State funds and \$155,000 in Federal funds to enhance quality assurance oversight of hospitals, home health agencies, drug and alcohol treatment programs and other health care facilities by strengthening the State licensure and Federal certification processes and improving complaint investigation capabilities.
- \$500,000 increase in State funds to provide for 10 additional hospital medical advocacy projects for victims of domestic violence.
- \$500,000 to establish additional local health care coordination units which provide clinical consultation, technical assistance, and training for individuals with mental retardation, their families, service providers and health care professionals.
- \$151,000 to effectively prevent and control infectious disease through enhanced surveillance and risk assessment activities.
- \$137,000 to enhance the quality health care accountability of managed care organizations through expanded oversight.
- \$100,000 to enhance the efforts of community health partnerships to improve community health care.
- \$100,000 to improve inspection and licensing of a variety of human service providers through streamlining and consolidating State regulations and implementing a management information system that would provide data on the adequacy of service.

HELPING PENNSYLVANIANS WITH DISABILITIES

- \$26 million in State and Federal funds to serve 671 persons with mental retardation in the community and provide enhanced services for 1,800 persons currently receiving assistance.
- \$36 million for vocational rehabilitation services.

- \$4.3 million in total funds to provide services to 124 persons with disabilities including individuals with traumatic brain injury, autism or who are ventilator dependent adults.
- \$2.8 million in total funds to assist individuals with disabilities to purchase or modify their homes to accommodate their disability.
- \$1.7 million increase in total funds to expand attendant care services to 100 persons.
- \$1 million for the Independence Capital Access Network Program to provide grants to businesses to support the purchase of specialized or adaptive equipment for employees with disabilities.
- \$200,000 for a loan guarantee program for persons with disabilities so they may obtain assistive technology devices.
- Transfer the Bureau of Blindness and Visual Services from the Department of Public Welfare to the Department of Labor and Industry to improve services to the blind and visually impaired.

SERVICES TO OLDER PENNSYLVANIANS

- \$145.2 million from the General Fund and Lottery Fund to maintain transportation programs that will provide nearly 46 million free and 7 million shared rides.
- \$5.4 million increase in State funds to continue the PENNCARE program for Older Pennsylvanians and provide service to an additional 113 persons in the PENNCARE Attendant Care Program.
- \$2 million to continue improvements to community senior centers.
- \$1.8 million increase in funds to expand the availability of Medical Assistance home and community-based alternatives to nursing home care that when fully implemented, will serve an additional 3,000 older Pennsylvanians Statewide.



TRANSPORTATION

To provide an intermodal system which meets the needs of citizens, commerce and industry for the fast, efficient and safe movement of individuals and cargo within the Commonwealth, and to link them with national and international systems.

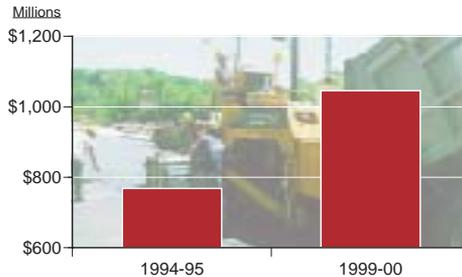
The 1999-00 Budget recommends the following program changes and funding amounts in pursuit of this program's goal.

TRANSPORTATION ADMINISTRATION

- \$26 million for advanced maintenance technologies and more efficient transportation systems.

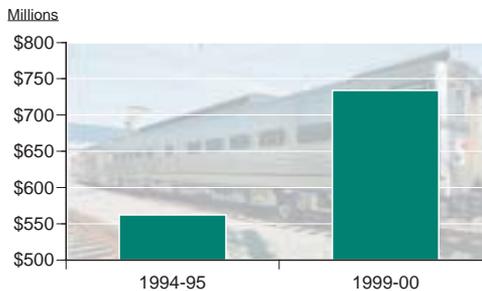
STATE HIGHWAY AND BRIDGE MAINTENANCE

- \$1.219 billion, including \$173 million in Federal funds, for the maintenance of the Commonwealth's bridges and highways. Also included is a \$45 million initiative to enhance road safety conditions in all 67 counties in the Commonwealth.



MASS TRANSPORTATION

- \$734 million for operating and capital assistance to mass transit agencies.

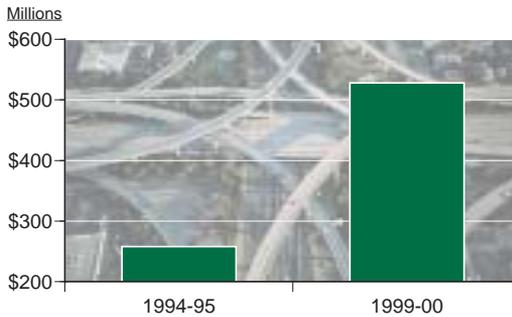


INTERCITY TRANSPORTATION

- \$8.5 million for rail freight assistance.
- \$2.1 million to subsidize intercity transportation.

STATE HIGHWAY AND BRIDGE CONSTRUCTION

- \$1.266 billion, including \$727.8 million in Federal funds, for new construction and major repairs of highways and bridges.

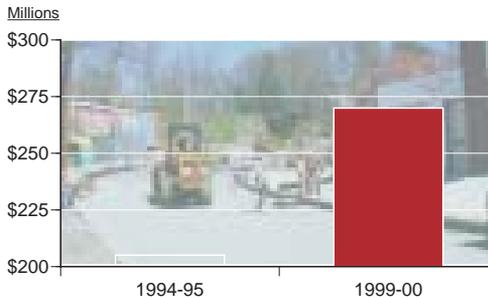


AIR TRANSPORTATION

- \$7.8 million to improve public airports.

LOCAL ROAD MAINTENANCE AND CONSTRUCTION PAYMENTS

- \$270 million to municipal governments for local road maintenance and construction.



SAFETY ADMINISTRATION AND LICENSING

- \$10.1 million for the reissuance of motor vehicle license plates.
- \$1.1 million to provide for the relocation and expansion of Drivers Licensing Centers in Philadelphia, Washington County, and Lackawanna County.

RECREATION AND CULTURAL ENRICHMENT

To provide sufficient opportunities for individual and group recreation and cultural growth.

The 1999-00 Budget recommends the following program changes and funding amounts in pursuit of this program's goal.



Total support for public libraries has increased by \$27.7 million from \$29.4 million in 1994-95 to \$57.1 million in 1999-00, an increase of 94 percent.

- \$17 million increase to enhance support of local public libraries' operating budgets and to create stronger incentives for local governments to invest in public libraries.
- \$23 million from timber sales to maintain and improve the Commonwealth's State forests.
- \$12 million from user fees to maintain and improve the Commonwealth's State parks.



- \$7.8 million to continue converting public television broadcasting from analog to digital signals.
- \$250,000 for information technology improvements for the Historical and Museum Commission.
- \$400,000 increase in the Grants to the Arts Program.



- \$370,000 to provide administrative support for historic sites and museums.

DIRECTION AND SUPPORTIVE SERVICES

The goal of this Commonwealth program is to provide an effective administrative support system through which the goals and objectives of the Commonwealth programs can be attained.

The 1999-00 Budget recommends the following program changes and funding amounts in pursuit of this program's goal.

INFORMATION TECHNOLOGY TO POSITION PENNSYLVANIA AS A 21ST CENTURY LEADER

- \$23.4 million for enterprise-wide information technology projects and continuation of efforts to resolve Year 2000 computer issues.
- \$9.3 million to continue implementation of the Integrated Criminal Justice Network (JNET).
- \$8.5 million in total funds for the State Police to establish an incident information management system, provide information technology to support the Commonwealth Law Enforcement Network and improve the Uniform Crime Reporting System.
- \$5.2 million across three agencies for base stations and mobile and portable radio equipment for agency participation in the Statewide Radio System.
- \$3 million for software to support the procurement system in the Department of General Services that will improve services to vendors and customer agencies.
- \$2.2 million for technical support to develop transportation information technology systems and enhanced technology processes in driver's licensing and vehicle registration programs.
- \$1.3 million in augmentations to develop an automated system for professional licensure within the Department of State to facilitate public access and customer service.
- \$1.3 million across five agencies to create Geographic Information Systems (GIS) data bases, establish methods to share data and data development, and facilitate interaction with local government and the private sector.



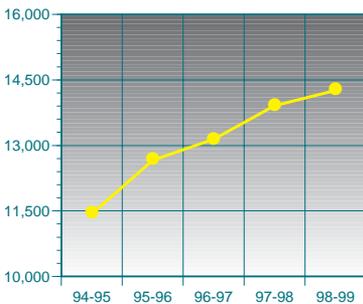
- \$775,000 for development of a Commonwealth Travel Reimbursement System.
- \$512,000 for implementation of an interactive voice response system. This initiative is funded through the State Employees' Retirement Fund.
- \$500,000 to automate case processing, management and tracking in the Human Relations Commission.
- \$464,000 in augmentations for information technology for automated test administration in the Civil Service Commission.
- \$398,000 for electronic management and dissemination of campaign finance information.
- \$241,000 for an interactive voice response system in the Insurance Department to enhance customer service.

PERSONNEL COMPLEMENT

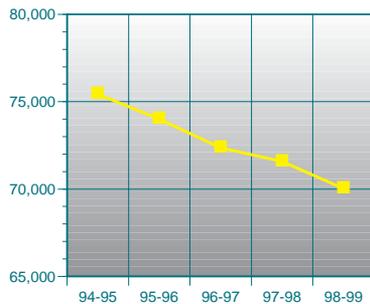
- This budget proposes a net reduction of 896 in total salaried complement even after including additional positions necessary for the State correctional system.

| | 1997-98 Actual | 1998-99 Available | 1999-00 Budget | Difference |
|---|----------------------|----------------------|----------------------|--------------------|
| Corrections and Board of Probation & Parole | 13,908 | 14,182 | 14,888 | 706 |
| All Other Agencies | <u>71,612</u> | <u>70,758</u> | <u>69,156</u> | <u>-1,602</u> |
| Total | <u><u>85,520</u></u> | <u><u>84,940</u></u> | <u><u>84,044</u></u> | <u><u>-896</u></u> |

Authorized Salaried Complement



Corrections and the Board of Probation & Parole



All Other Agencies

SALARIED COMPLEMENT BY AGENCY

Full-Time Equivalent (FTE)

The following is a summary, by department, of the 1997-98 actual, 1998-99 available and 1999-2000 recommended salaried complement levels on a full-time equivalent (FTE) basis.

| Department | 1997-98 Actual | 1998-99 Available | 1999-00 Budget | Difference Budget vs. Available |
|---|-------------------|----------------------|-------------------|---------------------------------------|
| Governor's Office | 91 | 91 | 91 | |
| Executive Offices | 2,257 | 2,256 | 2,249 | -7 |
| Lieutenant Governor's Office | 16 | 16 | 17 | 1 |
| Aging | 105 | 107 | 107 | |
| Agriculture | 626 | 630 | 632 | 2 |
| Banking | 118 | 124 | 124 | |
| Civil Service Commission | 181 | 181 | 181 | |
| Community and Economic Development .. | 318 | 332 | 336 | 4 |
| Conservation and Natural Resources | 1,305 | 1,311 | 1,312 | 1 |
| Corrections | 13,000 | 13,234 | 13,931 | 697 |
| Education | 1,089 | 1,121 | 823 | -298 |
| Emergency Management Agency | 129 | 136 | 140 | 4 |
| Environmental Hearing Board | 22 | 22 | 22 | |
| Environmental Protection | 3,098 | 3,123 | 3,137 | 14 |
| Fish & Boat Commission | 440 | 440 | 440 | |
| Game Commission | 731 | 731 | 731 | |
| General Services | 1,310 | 1,321 | 1,320 | -1 |
| Health | 1,338 | 1,345 | 1,387 | 42 |
| Historical and Museum Commission | 330 | 333 | 342 | 9 |
| Infrastructure Investment Authority | 22 | 23 | 23 | |
| Insurance | 288 | 298 | 302 | 4 |
| Labor and Industry | 6,317 | 6,242 | 6,401 | 159 |
| Liquor Control Board | 2,969 | 2,969 | 2,969 | |
| Military and Veterans Affairs | 1,950 | 2,046 | 2,076 | 30 |
| Milk Marketing Board | 36 | 36 | 36 | |
| Municipal Employees' Retirement | 22 | 22 | 22 | |
| Probation and Parole Board | 908 | 948 | 957 | 9 |
| Public Television Network | 20 | 20 | 20 | |
| Public Utility Commission | 547 | 538 | 538 | |
| Public Welfare | 24,809 | 23,732 | 22,110 | -1,622 |
| Revenue | 2,279 | 2,279 | 2,279 | |
| School Employees' Retirement System | 290 | 290 | 290 | |
| Securities Commission | 72 | 74 | 78 | 4 |
| State | 387 | 404 | 404 | |
| State Employees' Retirement System | 190 | 191 | 191 | |
| State Police | 5,540 | 5,604 | 5,653 | 49 |
| Tax Equalization Board | 22 | 22 | 22 | |
| Transportation | 12,348 | 12,348 | 12,351 | 3 |
| TOTAL ALL DEPARTMENTS | <u>85,520</u> | <u>84,940</u> | <u>84,044</u> | <u>-896</u> |



The Lieutenant Governor is leading the Privatize, Retain, Innovate, Modify and Eliminate (PRIME) process which is implementing the recommendations from the Improve Management Performance and Cost Control Task Force Commission study of 1995.

To date, 300 PRIME initiatives have been completed for a dollar savings of nearly \$300 million.

Examples of work implemented include the following:

- Instituted an Innovation Bank Program throughout State Government. Within the first year of operation \$323,115 was awarded for implemented cost-savings and innovative proposals.
- Increased public access to campaign finance information by making data accessible via the Internet.
- Instituted a new customer focused telephone reservation system for State parks.
- Streamlined pump and tank inspections. In addition, streamlined the regulation of vehicle inspection stations.
- Implemented a new Telefile system enabling Pennsylvanians to file their State taxes via the telephone saving them time and money.
- Implemented a pilot system for providing Unemployment Compensation services by phone.
- Expanded the On-Line Messenger Service Statewide allowing more Pennsylvanians easier access to various services provided by the Department of Transportation.



Responsible environmental management is not only the right thing to do it also contributes significantly to the reduction in the use of materials, energy and production time.

The Governor's Green Government Council was established in March 1998 with the intention of having the Commonwealth government set an example in moving toward the goal of a sustainable Pennsylvania. Within the first year, forty-two agencies contributed plans for 154 Green projects.

Significant highlights include:

- Construction of the Commonwealth's first green building, the Department of Environmental Protection's South Regional Office Building constructed on a brownfield site and designed to use 50 percent less energy.
- Development of guidelines by the Department of General Services based on green technology to promote energy-efficient, environmentally friendly designs in all Commonwealth-owned or agency leased buildings.
- Department of Transportation is integrating consideration of environmental factors throughout its functions by pursuing adoption of a formal environmental management system.

P E N N S Y L V A N I A

1999-2000
BUDGET IN BRIEF



GENERAL FUND

GENERAL FUND

Financial Statement

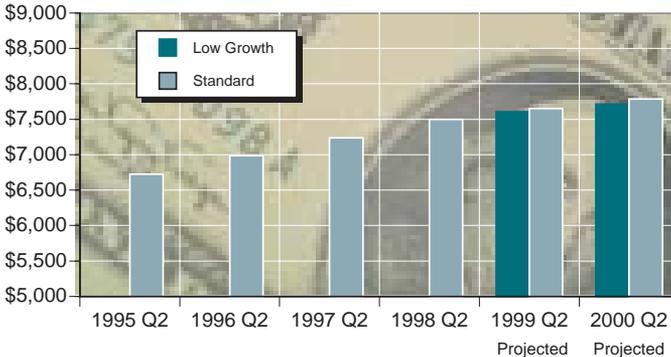
| | Millions | |
|--|-----------|-----------|
| | 1998-99 | 1999-00 |
| Beginning Balance | \$ 265 | \$ 307 |
| Receipts | 18,144 | 18,598 |
| Tax Reductions | | -258 |
| | ----- | ----- |
| Funds Available | \$ 18,409 | \$ 18,647 |
| Appropriated | -18,098 | -18,625 |
| Less Lapses | 50 | |
| | ----- | ----- |
| Closing Balance | \$ 361 | \$ 22 |
| Less Transfer to Rainy Day Fund | -54 | -3 |
| | ----- | ----- |
| Ending Balance | \$ 307 | \$ 19 |
| | ===== | ===== |

The Governor has proposed a General Fund Budget for 1999-00 that strengthens public education, emphasizes and encourages job creation and business development, protects the environment and promotes personal self-sufficiency.

ECONOMIC OUTLOOK

Real Gross Domestic Product

Billions (1992 dollars)



- The national economy is expected to expand through the 1999-00 fiscal year.
- Both the baseline and the low growth forecast anticipate continued national economic growth, they differ only on the rate of anticipated growth. The low growth forecast was used to prepare most tax revenue estimates.
- The extraordinary gains made by the stock market are helping maintain consumer spending and investment spending by business.
- The faster pace of the economy has brought higher revenues for taxes that are sensitive to economic trends. Receipts from the sales tax and the personal income tax thus far in the fiscal year have exceeded their estimate. For the General Fund in 1998-99, revenues are now expected to be \$270 million above the official estimate.
- Pennsylvania's improved competitive position and its high correlation to the U.S. economy will mean Pennsylvania should follow national economic trends.

GENERAL FUND

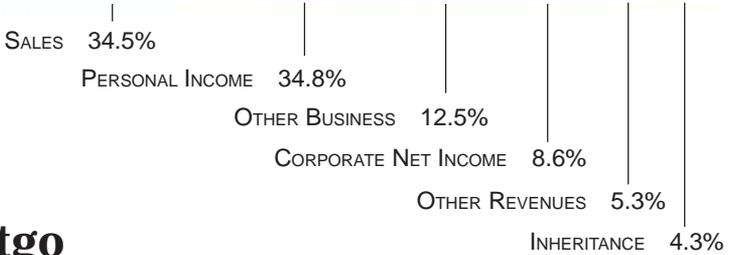
Supplemental Appropriations

| | 1998-99 Estimated (Thousands) |
|--|-------------------------------------|
| Education | |
| General Government Operations | \$ 1,000 |
| Early Intervention | 2,508 |
| Nonpublic Pupil Transportation | 1,091 |
| Homebound Instruction | 112 |
| Tuition for Orphans and Children Placed in Private Homes | 486 |
| <i>Education Total</i> | <u>\$ 5,197</u> |
| Public Welfare | |
| Mental Health Services | \$ 3,523 |
| Supplemental Grants | 2,164 |
| Medical Assistance - Outpatient | 111,306 |
| Medical Assistance - Inpatient | 56,397 |
| Medical Assistance - Capitation | -66,990 |
| Long-Term Care | -16,709 |
| <i>Public Welfare Total</i> | <u>\$ 89,691</u> |
| Revenue | |
| Commissions - Inheritance and Realty Transfer Taxes (EA) | <u>\$ 423</u> |
| State | |
| Publishing Constitutional Amendments (EA) | <u>\$ 800</u> |
| TOTAL | <u><u>\$ 96,111</u></u> |

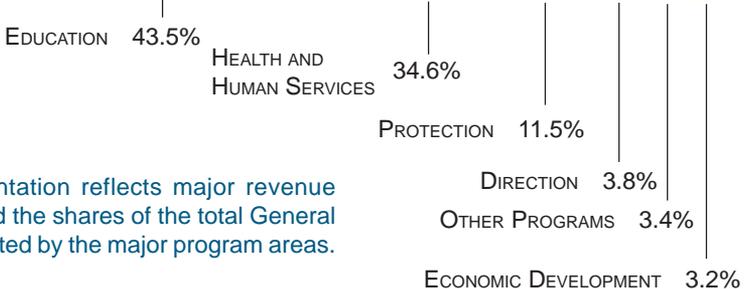
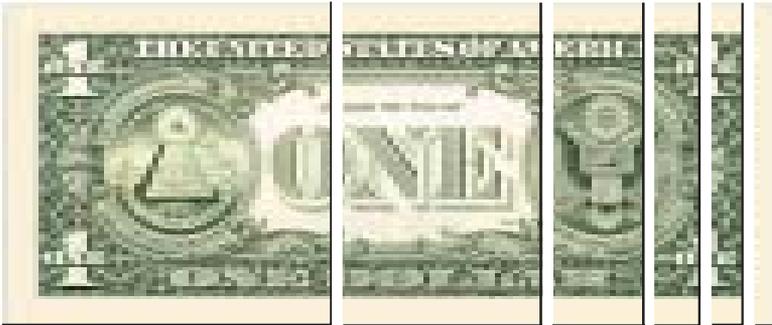
GENERAL FUND

1999-2000 Fiscal Year

Income

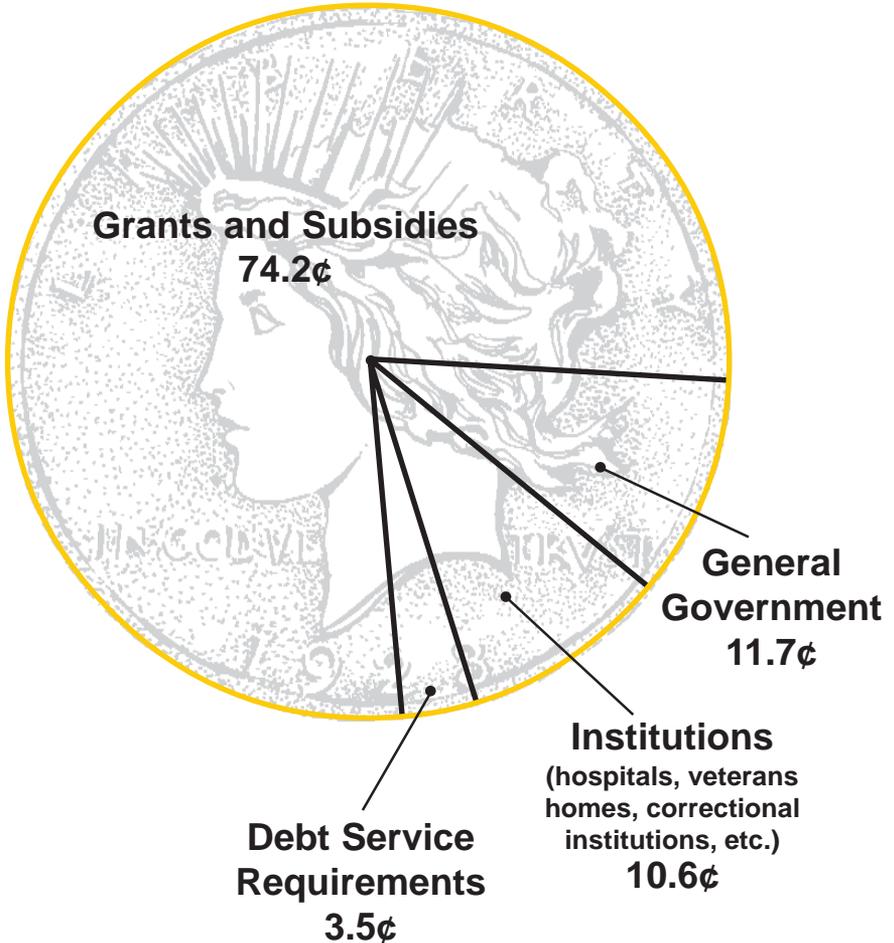


Outgo



This presentation reflects major revenue sources and the shares of the total General Fund allocated by the major program areas.

Use of the General Fund Dollar



Nearly three quarters of each 1999-00 General Fund dollar is returned to individuals, governments, institutions, school districts, etc. in the form of grants and subsidies.

MOTOR LICENSE FUND

Financial Statement

| | Millions | |
|-------------------------|--------------|-------------|
| | 1998-99 | 1999-00 |
| Beginning Balance | \$ 108 | \$ 66 |
| Receipts | 1,884 | 1,880 |
| | <hr/> | <hr/> |
| Funds Available | \$ 1,992 | \$ 1,946 |
| Appropriated | -1,948 | -1,938 |
| Lapses | 22 | |
| | <hr/> | <hr/> |
| Ending Balance | <u>\$ 66</u> | <u>\$ 8</u> |

Continues highway and bridge maintenance program.

Provides for aggressive program of highway and road construction important for economic development.

Provides for continued reconstruction of the Commonwealth's interstate system.

1999-2000 MOTOR LICENSE FUND *

(Millions)

| | |
|-------------------------|----------------|
| Total Income | \$1,880 |
| Beginning Balance | 66 |
| TOTAL | \$1,946 |

INCOME



Liquid Fuels Tax — \$1,029

Licenses and Fees — \$758

Other — \$93

OUTGO



Maintenance — \$728

State Police — \$290

Local Subsidy — \$180

Debt Service — \$100

Improvement, Design — \$368

Other — \$172

Licensing and Safety — \$100

| | |
|----------------------|----------------|
| Total Outgo | \$1,938 |
| Ending Balance | 8 |
| TOTAL | \$1,946 |

* Excludes restricted accounts. Total highway maintenance is \$1.046 billion: \$728 million Motor License Fund and \$318 million restricted accounts.

LOTTERY FUND

Financial Statement

| | Millions | |
|-------------------------|--------------|--------------|
| | 1998-99 | 1999-00 |
| Beginning Balance | \$ 83 | \$ 66 |
| Receipts | 1,123 | 1,119 |
| Funds Available | \$ 1,206 | \$ 1,185 |
| Appropriated | -1,140 | -1,158 |
| Lapses | | |
| Ending Balance | <u>\$ 66</u> | <u>\$ 27</u> |

The Lottery Fund has reached a state of maturity where significant sales growth will be difficult to achieve.

Provides pharmaceutical cost assistance to qualified older Pennsylvanians.

Provides in-home and community-based services to qualified older Pennsylvanians.

Provides free and shared ride transportation for older Pennsylvanians.

CAPITAL BUDGET

| | <u>1999-00 Millions</u> |
|-------------------------------------|-----------------------------|
| <u>From Bond Funds</u> | |
| Agriculture | \$ 17 |
| Corrections | 31 |
| Education | 29 |
| Environmental Protection | 13 |
| General Services | 12 |
| Public Welfare | 20 |
| State Police | 13 |
| Transportation | 174 |
| All Others | 13 |
| | <hr/> |
| Subtotal Bond Funds | \$ 322 |
| <u>From Current Revenues</u> | |
| Transportation | \$ 171 |
| All Others | 36 |
| | <hr/> |
| Subtotal Current Revenues | \$ 207 |
| | <hr/> |
| TOTAL CAPITAL | <u><u>\$ 529</u></u> |

The 1999-00 Capital Budget recommends:

- Agriculture - Construction of a new Equine Exhibition Center and a Meat Animal Evaluation Center.
- Corrections - Infrastructure and security improvements at State Correctional Institutions.
- Education - Renovation of existing academic buildings at Cheyney University and construction of a new Health Sciences Library facility at Temple University.

- Environmental Protection - Rehabilitation of existing flood protection structures and furnishings and equipment for the Environmental Protection portion of the Center of Excellence Laboratory Complex at Summerdale.
- General Services - Improvements at the Capitol Complex.
- Historical and Museum Commission - New exhibits at Fort Pitt Museum.
- Military and Veterans Affairs - New armory construction and improvements to Scotland School for Veterans Children and the Pennsylvania Soldiers and Sailors Home.
- Public Welfare - Improvements at the State Mental Hospitals and State Centers.
- State Police - Construction of a new Crime Laboratory within the Center for Excellence Laboratory Complex at Summerdale.
- Transportation - Provides for replacement of highway maintenance facilities, a new welcome center, furnishings and equipment for the previously authorized materials testing laboratory, infrastructure improvements for local mass transit agencies and authorization of major highway rehabilitation projects.

P E N N S Y L V A N I A

1999-2000
BUDGET IN BRIEF



BUDGET PROCESS

THE BUDGET PROCESS



The Governor's Budget is developed with a focus on the results of government programs and provides information about program goals, objectives, accomplishments and effects.

The Governor's Budget is a statement of the Commonwealth's program plan, the resources necessary to support that plan, a description of how resources are to be used, and an assessment of the effects of programs on people and the environment. This information is presented so that the levels of expenditure are associated with levels of government services and, ultimately, with the resulting effects on important public policy issues and concerns faced by the Commonwealth.

PHASES OF THE BUDGET PROCESS

The State budget process can be divided into four stages: gubernatorial preparation and submission to the General Assembly; approval (involving the executive and legislative branches); execution; and program performance evaluation and financial audit.

PREPARATION

The preparation stage of the budget process begins nearly twelve months prior to the start of that fiscal year. The first step of the preparation stage is the distribution of the Budget Instructions and Program Policy Guidelines by the Governor. The Program Policy Guidelines define major policy issues, spell out priorities and provide policy direction to the agencies for budget preparation.

Agency budget requests are submitted to the Office of the Budget beginning in mid-October but not later than November 1. Agencies prepare and submit their requests using computerized systems. The Agency Program Plan, the programmatic presentation of agency budget requests, and the appropriation level information are prepared and submitted in the format and manner specified in Budget Instructions issued annually by the Office of the Budget.

During December, the Governor meets with Legislative leaders to apprise them of anticipated spending and revenue levels and to discuss major fiscal issues expected to be addressed in the upcoming budget.

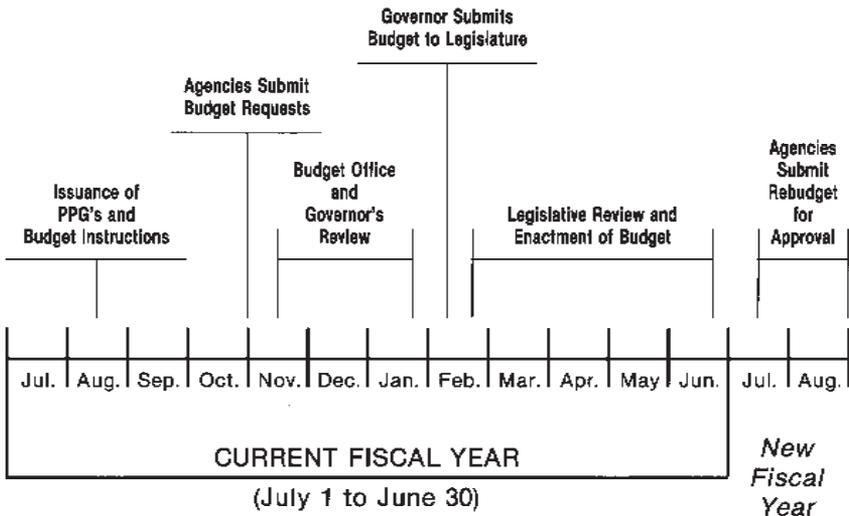
The Secretary of the Budget and his staff review agency budget requests for accuracy and for adherence to the Governor's policy guidelines. The Agency

Program Plan and the appropriation templates are used by the Office of the Budget to analyze the agency requests and prepare funding recommendations for the Secretary of the Budget and the Governor. Total agency requests must be brought into balance with total funds estimated to be available from existing sources and any new revenue sources that are recommended. The Secretary of the Budget makes recommendations to the Governor on the expenditure proposals contained in each agency budget request and, in conjunction with the Secretary of Revenue, provides revenue estimates. The Governor reviews these recommendations and makes final budget decisions. The Governor’s Executive Budget document is then completed and submitted to a joint session of the General Assembly by the Governor through his budget address.

APPROVAL

Shortly after receiving the Governor’s budget request, the Appropriations Committees of the House and Senate hold public hearings to review individual agency requests for funds. The appropriations hearings provide the legislators with an opportunity to review the specific programmatic, financial and policy aspects of each agency’s programs. The legislators make their decisions on the budget which are reflected in the General Appropriation Bill and individual appropriation bills. The General Appropriation Bill contains appropriations for the executive, legislative and judicial departments, public schools and for public debt. All other appropriations are made individually by separate special bills.

BUDGET CYCLE IN PENNSYLVANIA



Appropriations made to institutions not under the absolute control of the Commonwealth are considered nonpreferred appropriations and require a two-thirds vote of each House of the General Assembly for passage. The passage of the General Appropriation Bill and other appropriation bills by the General Assembly and the passage of any revenue measures which may be required to ensure a balanced budget constitute the legislative approval phase of the budget process.

At the time that the General Appropriation Bill and other appropriation bills are presented to the Governor for approval, the official revenue estimates for the budget year are established by the Governor. If the appropriations passed by the Legislature exceed the revenue estimates plus any available surplus, the Governor has the authority and duty either to veto entire appropriation bills or to reduce the amount of appropriations in order to produce a budget that is in balance with total resources available. The Governor also has the power to reduce or item veto any appropriation he thinks excessive or unnecessary even if the total appropriations passed by the legislators do not exceed estimated resources available. A Governor's item veto may be overridden by a two-thirds vote of each House of the General Assembly.

The signing of the appropriations bills and any revenue bills by the Governor is the last step in the approval stage of the budget process.

On occasion, additional appropriations are made subsequent to the passage of the General Appropriation Act. These additional appropriations are made for a purpose for which either no appropriation was originally made, or in those circumstances where the General Assembly deems it desirable that an original appropriation be increased in the current fiscal year period. These appropriations are made in supplemental appropriation bills which are passed in the same manner as regular appropriation bills.

EXECUTION

The Office of the Budget has the authority to request and approve agency spending plans, commonly referred to as rebudgets. The rebudgets are based primarily on the enacted appropriations. The Office of the Budget uses the Integrated Central System to electronically enter allocation amounts into the accounting system based upon the approved rebudget. Program managers and administrators are responsible for operating their programs within the resources that are available and for producing the results cited in the budget.

AUDIT

The last stage of the budget cycle, which occurs after the close of the fiscal year, encompasses audit and review of program and financial performance. The Office of the Budget informally reviews program and financial performance and performs formal evaluations of selected programs. In addition, the Auditor General performs a financial post audit.

THE CAPITAL BUDGET PROCESS

The capital budget process in Pennsylvania is similar to the process for operating budgets. It has a preparation and submission to the General Assembly phase, an approval phase involving both the executive and legislative branches, and an execution phase.

The preparation phase follows the operating budget preparation cycle for a fiscal year beginning July 1. When agencies submit the budget requests to the Secretary of the Budget beginning in mid-October through November 1, a capital budget request itemizing the projects the agencies want to undertake is also submitted. The requests are reviewed and recommendations developed based on the Governor's financial parameters and policies.

Final decisions on the capital budget are made by the Governor at the same time as those for the operating budget. The Governor's final recommendations are contained in a separate Capital Budget section in the Governor's Executive Budget document which is submitted to the General Assembly.

The recommendations in the budget document along with any additions or deletions made by the General Assembly are contained in a separate bill usually known as the Capital Budget Project Itemization Act. This bill, along with the Capital Budget Act which contains the maximum debt limitations for the next fiscal year beginning July 1, must be passed by both Houses of the General Assembly and presented to the Governor for signature. The Governor reviews the projects contained in the Project Itemization Act taking into consideration his priorities, the importance of the project and the impact on operating budgets. The Governor may sign the bill as is or item veto parts or all of the amounts contained in the bill. Any item veto may be overridden by a two-thirds vote of each House of the General Assembly.

After projects have been approved in an enacted Project Itemization Act, in order for a project to be activated, the Department of General Services must request that it be implemented. All requests for project activation are reviewed by the Office of the Budget for priority classifications and consistency with the Governor's priorities and policies. Projects approved by the Office of the Budget are scheduled for release-first for design and when design is complete, then for construction. These releases are made in accordance with certain fiscal guidelines in order to keep the entire capital budget at affordable levels each year.

TERMS USED IN THE BUDGET PROCESS

Appropriation: Legislation requiring the Governor's approval authorizing an agency, department, board, commission, or institution to spend a specified amount of money for a stated purpose or purposes during a particular period of time, usually one fiscal year.

Augmentation: Monies such as institutional billings or fees credited to a specific appropriation of State revenues. An augmentation can usually be spent for those purposes authorized for the appropriation it augments. Although augmentations usually are appropriated in general terms with no specific dollar limits, Federal aid monies must be appropriated specifically.

Balanced Budget: A budget in which proposed expenditures equal actual and estimated revenues and surplus. The Pennsylvania Constitution requires the Governor to submit a balanced budget and prohibits the General Assembly from appropriating monies in excess of actual and estimated revenues and surplus.

Budget: A statement of the State's program plan, the resources necessary to support that plan, a description of how and for what purposes the resources are to be used, and a projection of the effects of the programs on people and the environment.

Capital Budget: The capital budget is that portion of the State Budget that deals with projects for the construction, renovation, improvement, acquisition and original furniture and equipment of any building, structure, facility, land or land rights. Projects must have an estimated useful life in excess of five years and an estimated cost in excess of \$100,000. Most of the capital budget projects in the past have been paid from monies raised by the sale of bonds.

Character of Expenditure: A classification of appropriations according to their general purpose: general government, institutional, grants and subsidies, capital improvements, and debt service.

Deficit: A fiscal condition that may occur at the end of a fiscal year, whereby expenditures for a fiscal year exceed the actual cash intake of revenues during the same period plus the prior year surplus. The deficit must be paid from the next year's revenues.

Encumbrance: That portion of an appropriation representing an expenditure pursuant to a contract, a purchase order, or a known invoice but where an actual disbursement has not been made. In accrual accounting it is treated as a debit against the appropriation in the same manner as a disbursement of cash.

Executive Authorization: An authorization made in the name of the Governor to spend money from funds which had been previously appropriated through blanket action of the General Assembly. Usually this term is used in connection with the Special Funds. An example of this would be in the case of Tax Anticipation Notes interest and Sales Tax refunds.

Expenditure: As contrasted with disbursement, an accounting entry which is both the payment of cash and/or any encumbrance, as in accrual accounting.

Federal Funds Appropriation: All monies, regardless of source, deposited in the State Treasury must be appropriated. Federal funds are appropriated for a specific time period.

Fiscal Year: A twelve month period beginning July 1 and ending June 30 of the following calendar year which is used as the State's accounting and appropriation period. Definition of years:

Actual Year – Includes all expenditures and encumbrances chargeable to that fiscal year as of June 30 of the previous year plus any supplementals enacted after June 30. In the case of continuing appropriations, the actual figure will also include any available balances. For non-appropriated and non-executively authorized restricted receipts and restricted revenues, it reflects expenditures only.

Available (Current) Year – State funds include amounts appropriated to date and supplemental appropriations recommended in this Budget. In the case of Federal funds, the best estimate currently available. For non-appropriated and non-executively authorized restricted receipts and restricted revenues, the best estimate of expenditures currently available is used.

Budget Year – Reflects the amounts being recommended by the Governor in this document for the next fiscal year.

Planning Years 1, 2, 3 and 4 – Reflects only the cost of the budget year projected into the future and the implementation of legislatively mandated increases which may be effective in a future year.

Fund: An independent fiscal and accounting entity comprising a source of money set aside by law for the purpose of carrying on specific activities in accordance with special regulations, restrictions, or limitations. It has been created by legislation. The General Fund is the fund from which most State programs are financed.

Fund balance: The beginning balance is the ending balance brought forward from the previous year. The ending balance (positive or negative) is the sum of the beginning balance, revenues/receipts and lapses less expenditures within the fiscal year.

General Appropriation Bill: A single piece of legislation containing numerous individual appropriations. The General Appropriation Bill contains only appropriations for the executive, legislative and judicial departments of the Commonwealth, for the public debt and for public schools. All other appropriations are made by separate bills each concerning one subject.

General Fund: The fund into which the general (non-earmarked) revenues of the State are deposited and from which monies are appropriated to pay the general expenses of the State.

Item Veto: The Pennsylvania Constitution empowers the Governor to disapprove part or all of any item or items of any bill making appropriations of money. The part or parts of the bill approved become law and the item or items disapproved become void. This power is known as the item veto.

Lapse: The return of unencumbered or unexpended moneys from an appropriation or executive authorization to the fund from which the money originally came. Most appropriations are for one fiscal year and any unencumbered and unexpended monies usually lapse automatically at the end of that fiscal year.

Mandated Expenditures: Expenditures that are authorized and required by legislation, other than appropriation acts, or required by the Constitution. Such expenditures include payment of public debt.

Nonpreferred Appropriations: An appropriation to any charitable or educational institution not under the absolute control of the Commonwealth which requires the affirmative vote of two-thirds of the members elected to each House of the General Assembly.

Objective: A statement of program purposes in terms of desired accomplishments measured by impact indicators. Ideally accomplishments are intended effect (impact) upon individuals, the environment and upon institutions. The intended effect should be quantifiable and achievable within a specific time and stated resources, and contribute toward pursuing the goals of the Commonwealth. Objectives are found at the program subcategory level.

Official Revenue Estimate: The estimate of revenues for the coming fiscal year determined by the Governor at the time he signs the General Appropriation Act. This revenue estimate is used to determine whether appropriations are in balance with revenues.

Operating Budget: The operating budget is that portion of the State Budget that deals with the general day to day activities and expenses of State Government, paid out of revenues derived from taxes, fees for licenses and permits, etc.

Preferred Appropriation: An appropriation for the ordinary expenses of State Government which only requires the approval of a majority of the Senators and Representatives elected to the General Assembly.

Program Measure: A general term applied to any of the substantive measures found in the agency programs. Included are impacts, outputs and need and/or demand estimators.

Program Revision Request (PRR): A PRR is submitted to support new programs or major changes in existing programs. The PRR reflects the guidance provided by the Governor’s Annual Program Policy Guidelines (PPGs), results obtained from special analytic studies, and needs or demands considered relevant by the Governor.

Restricted Receipts: Monies received by a State fund (usually the General Fund) from a source outside of the State which may be used only for a specific purpose. The funds are held in a trust capacity for a period of time and then are disbursed to authorized recipients including other State agencies. Restricted Receipts do not augment an appropriation. Usually the State makes no other appropriation for the purpose specified for the restricted receipt.

Restricted Revenue: Monies designated either by law or by administrative decision for specific purposes. The revenues are deposited in the General Fund or in certain special funds but reported separately. Restricted revenue accounts continue from one year to the next and finance a regular operation of State Government. Disbursements from restricted revenue accounts must be accounted for as expenses of State Government.

Revenue: Monies received from taxes, fees, fines, Federal grants, bond sales and other sources deposited in the State Treasury and available as a source of funds to State Government.

Special Fund: A fund in which revenues raised from special sources named by law are deposited (earmarked revenue). Such revenues can be spent only for purposes prescribed by law and for which the revenues were collected. Examples: Motor License Fund, Game Fund and Boat Fund.

Surplus: A fiscal condition that may occur in a fund at the end of a fiscal year, whereby expenditures are less than the fund’s beginning balance, revenues/receipts and lapses during the same period. The surplus funds become available for appropriation during the following year.