

Commonwealth of Pennsylvania

***2005-06***  
***Governor's***  
***Executive Budget***

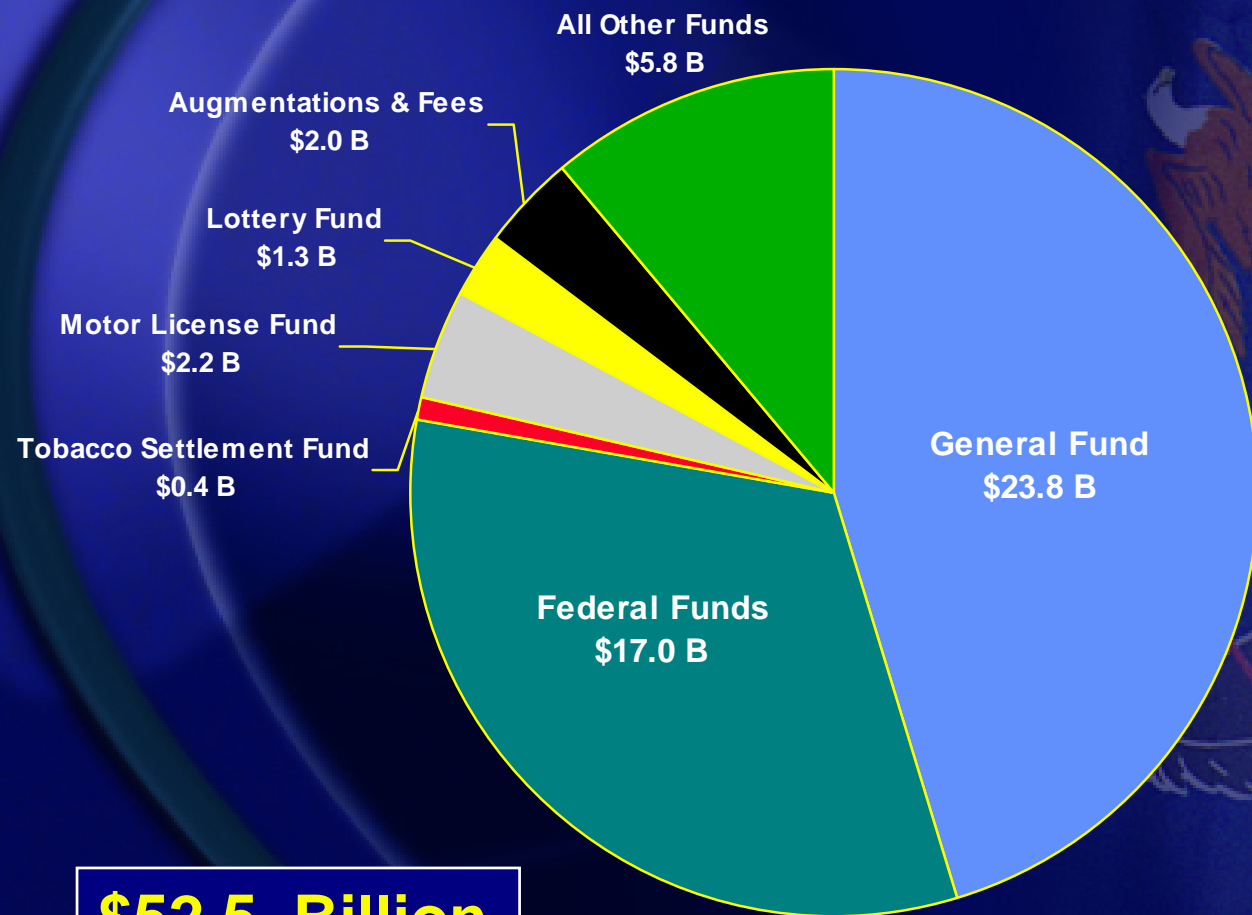


**Edward G. Rendell**  
*Governor*



**FY 2005-06**  
**Budget Overview**

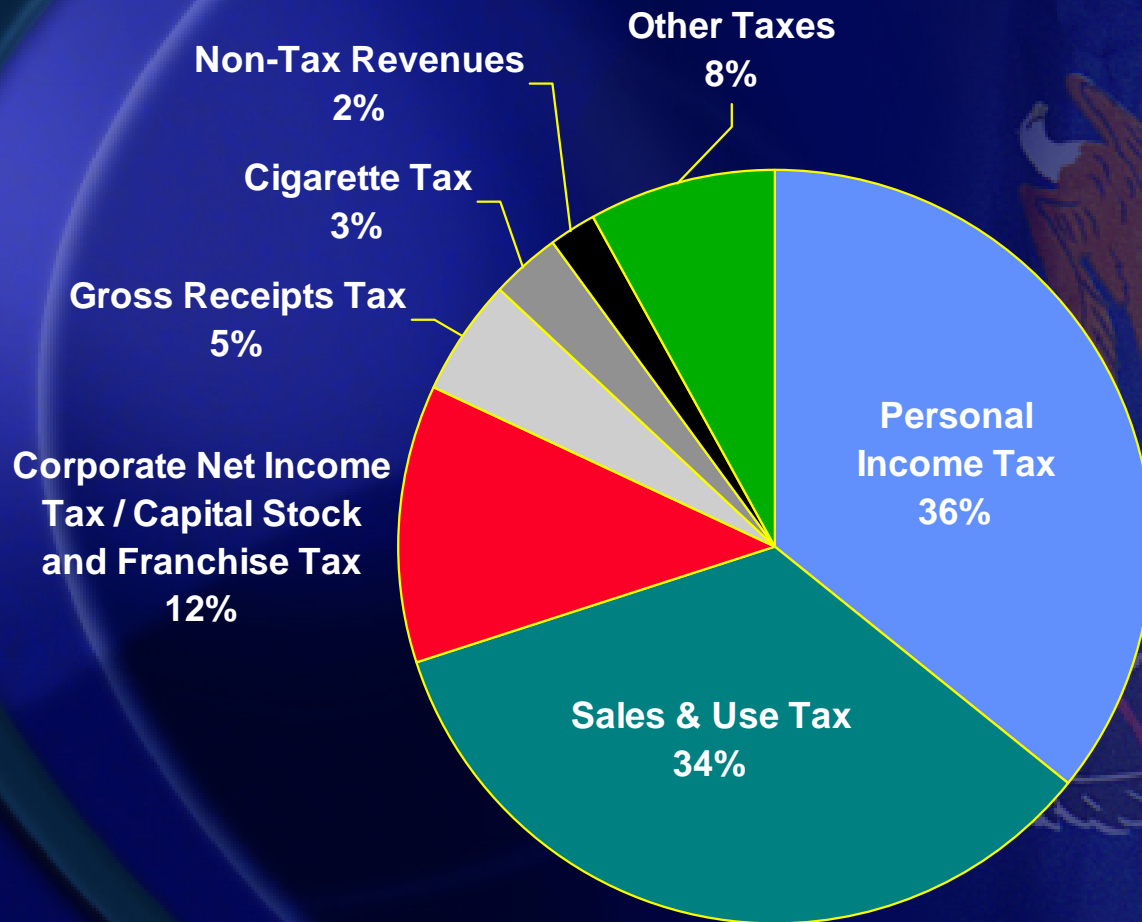
# 2005-06 Total Operating Budget



*The total FY 2005-06 operating budget, including all Commonwealth funds, is \$52.5 billion. The General Fund represents over 45 percent of this amount.*

**\$52.5 Billion**

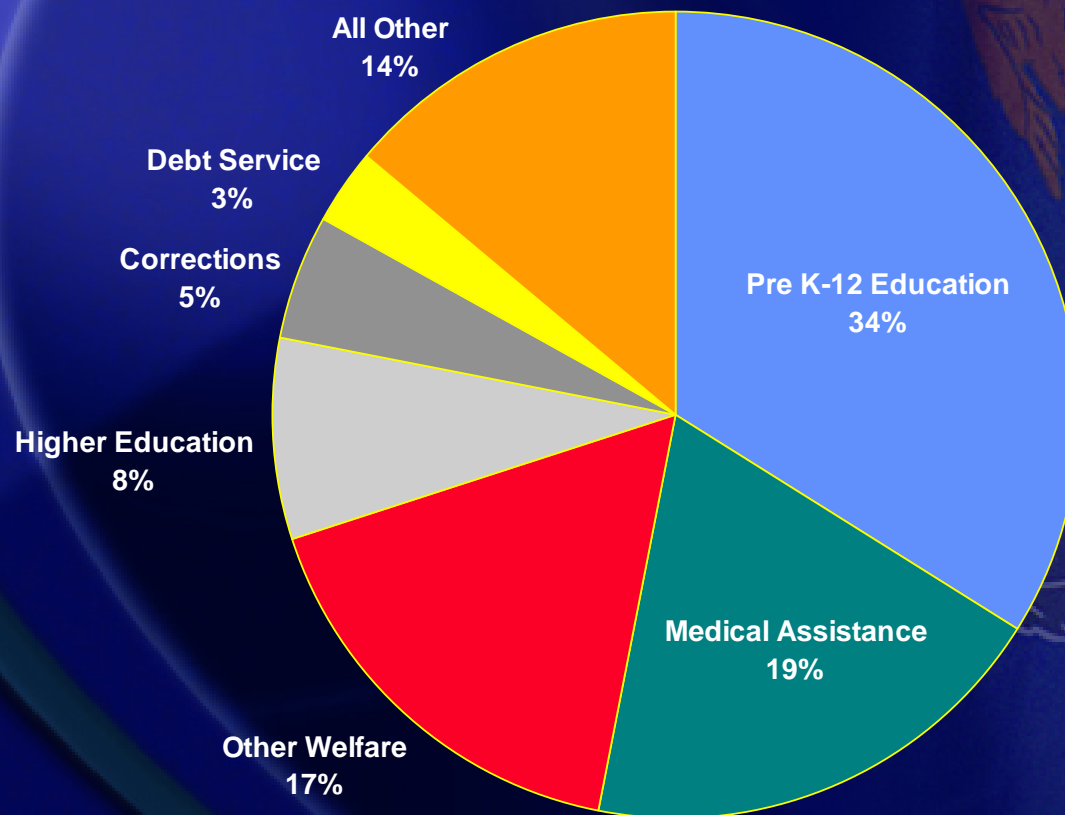
# 2005-06 General Fund Revenue Sources



*More than two-thirds (70 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales and Use Tax.*

# 2005-06 General Fund Expenditures

The proposed General Fund budget increases State spending by \$815 million, or 3.5 percent. Part of this increase replaces \$378 million in non-recurring Federal Fiscal Relief. The net increase of \$437 million is 1.9 percent. Removing increases for education, welfare and debt service, the budget proposes a 6.6 percent net decrease in funding for all other Commonwealth agencies and programs.



Spending on Education, Medical Assistance, other Public Welfare Programs, Corrections, and Debt Service comprises 86 percent of total General Fund expenditures.

# 2005-06 General Fund Financial Statement

The FY 2005-06 General Fund Budget is balanced without the aid of \$847M in Federal Fiscal Relief Funds that were available in the 2003-04 and 2004-05 fiscal years.

	\$ Millions		
	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Beginning Balance .....	\$ 196	\$ 77	\$ 201
Receipts .....	21,956	23,171	\$ 23,649
Funds Available .....	<u>\$ 22,152</u>	<u>\$ 23,248</u>	<u>\$ 23,850</u>
Expenditures .....	- 22,395	- 23,408	- 23,845
Lapse .....	<u>41</u>	<u>50</u>	<u>. . . .</u>
Balance .....	\$ - 202	\$ - 110	\$ 5
<b>Non-recurring Federal Fiscal Relief . . .</b>	<u><b>469</b></u>	<u><b>378</b></u>	<u>. . . .</u>
Preliminary Balance .....	\$ 267	\$ 268	\$ 5
Transfer To Rainy Day Fund .....	- 190	- 67	\$ - 1
<b>Ending Balance .....</b>	<u><u><b>\$ 77</b></u></u>	<u><u><b>\$ 201</b></u></u>	<u><u><b>\$ 4</b></u></u>

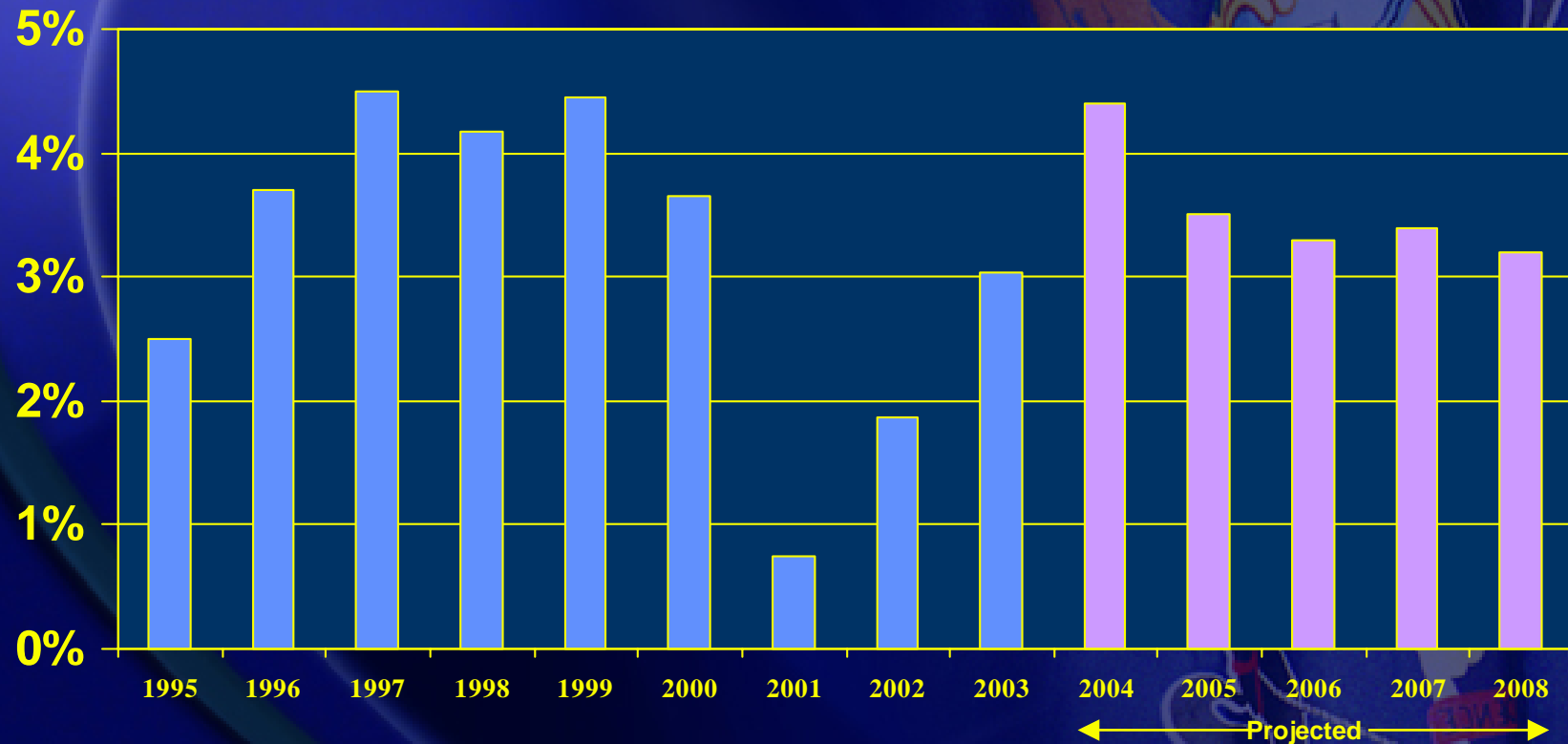
# Economic Outlook



# Real Gross Domestic Product

## Annualized Rate

*Real GDP growth has been increasing since 2001, but growth is projected to have peaked in 2004 and is now expected to be more moderate in 2005-2008.*

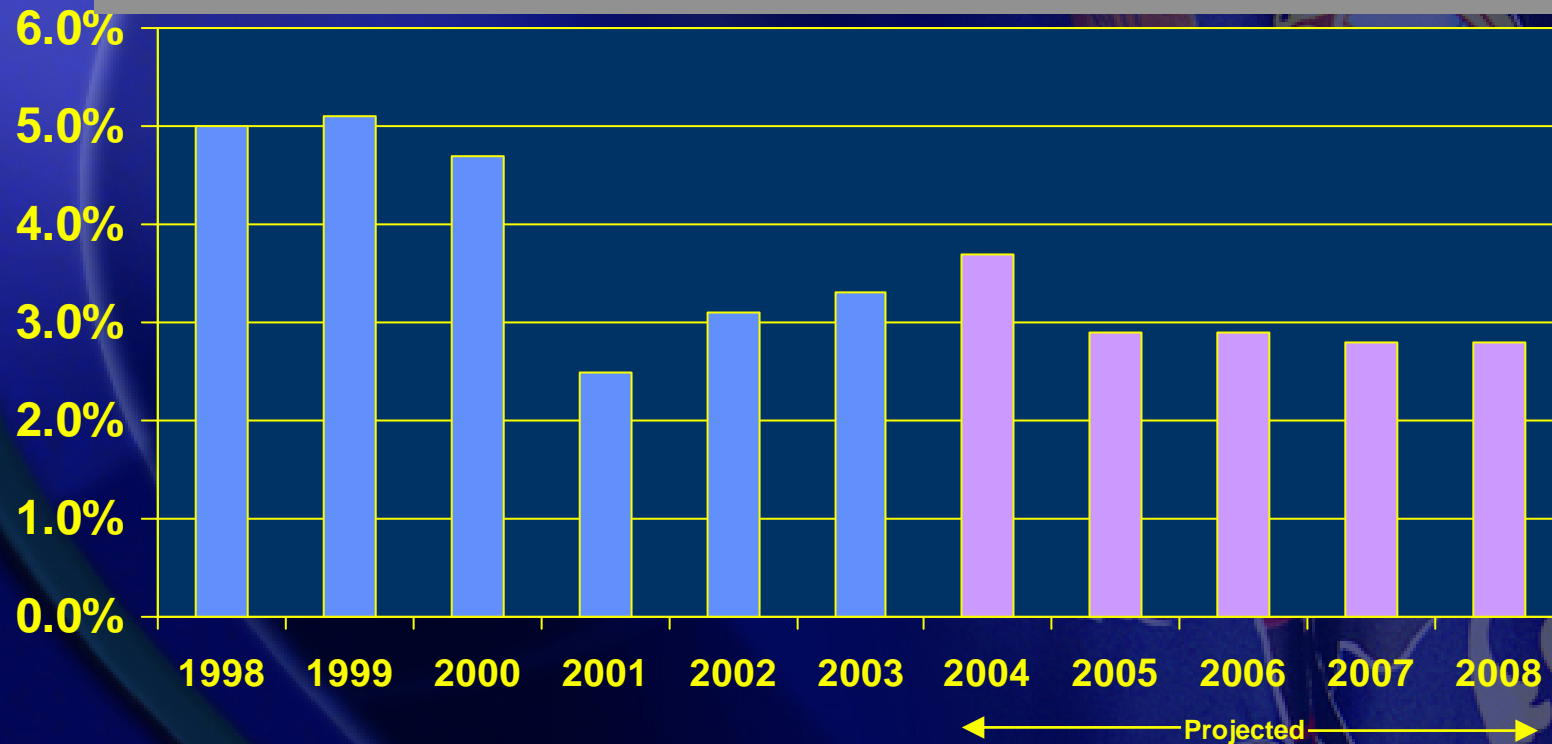




# Personal Consumption Expenditures

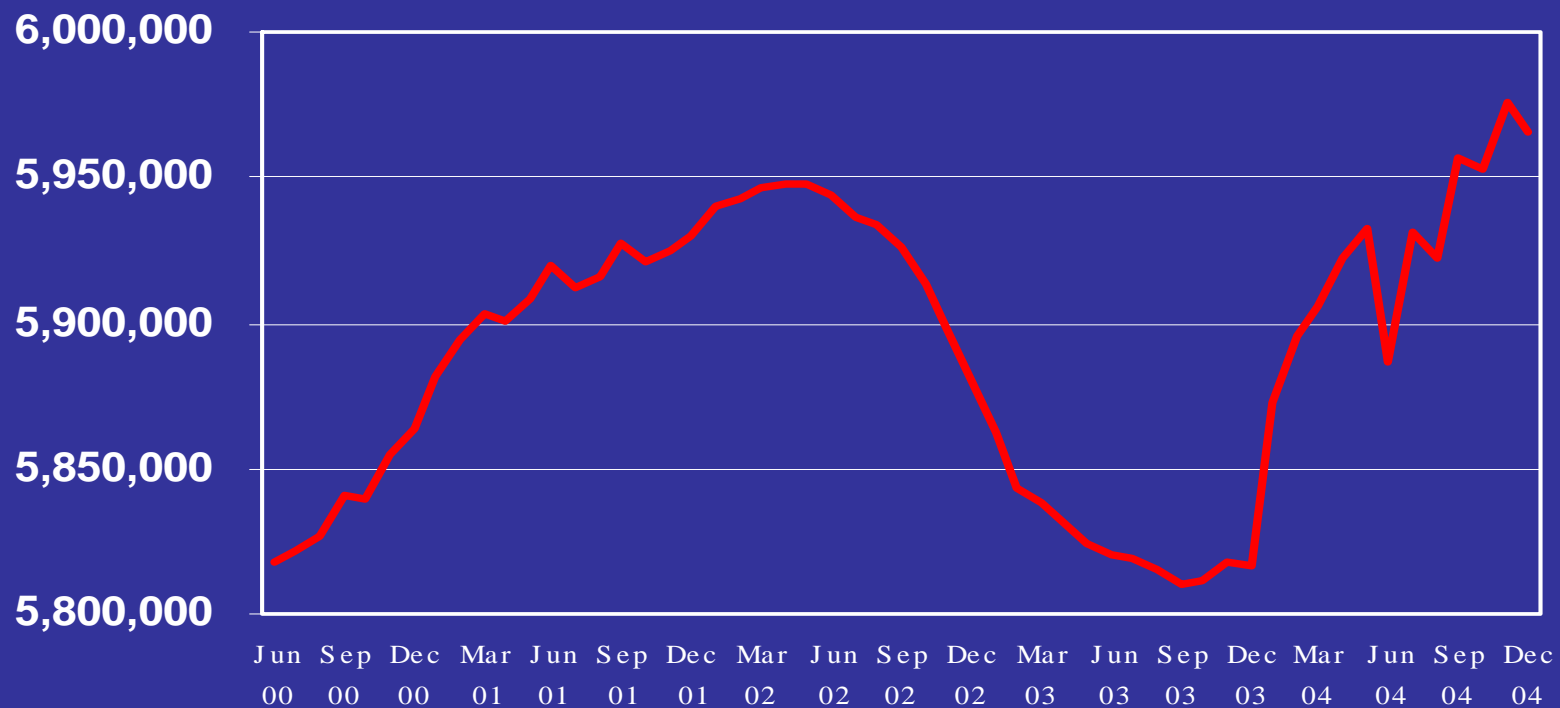
## Annual Average Growth

*No longer boosted by Federal tax cuts and increased Federal defense outlays, consumption growth is expected to be more moderate from 2005 through 2008 than in 2004 and at much lower levels than the late 1990s.*



# Pennsylvania Employment

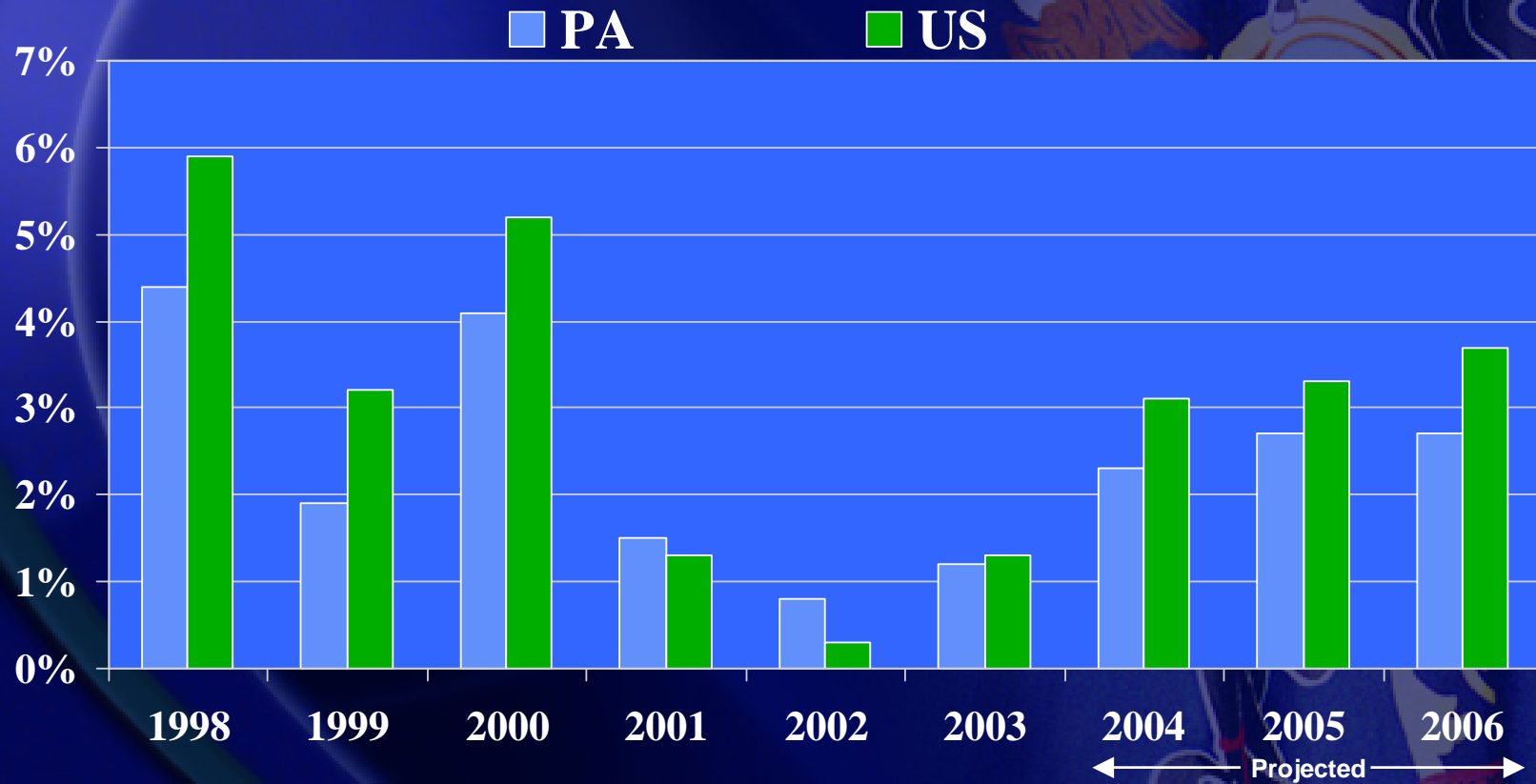
Above average growth in PA employment during 2004 has compensated for significant losses experienced since the 2002 recession. Even with above average growth this year, employment has only recently surpassed pre-recession levels. Pennsylvania unemployment at the end of December 2004 was 5.6%, compared to the December 2003 rate of 5.2% and the national rate of 5.4%. Jobs fell by 8,000 for the month of December, but increased by 70,200, 1.3% for the year.



# PA and US Real Personal Income

## Annual Percent Growth

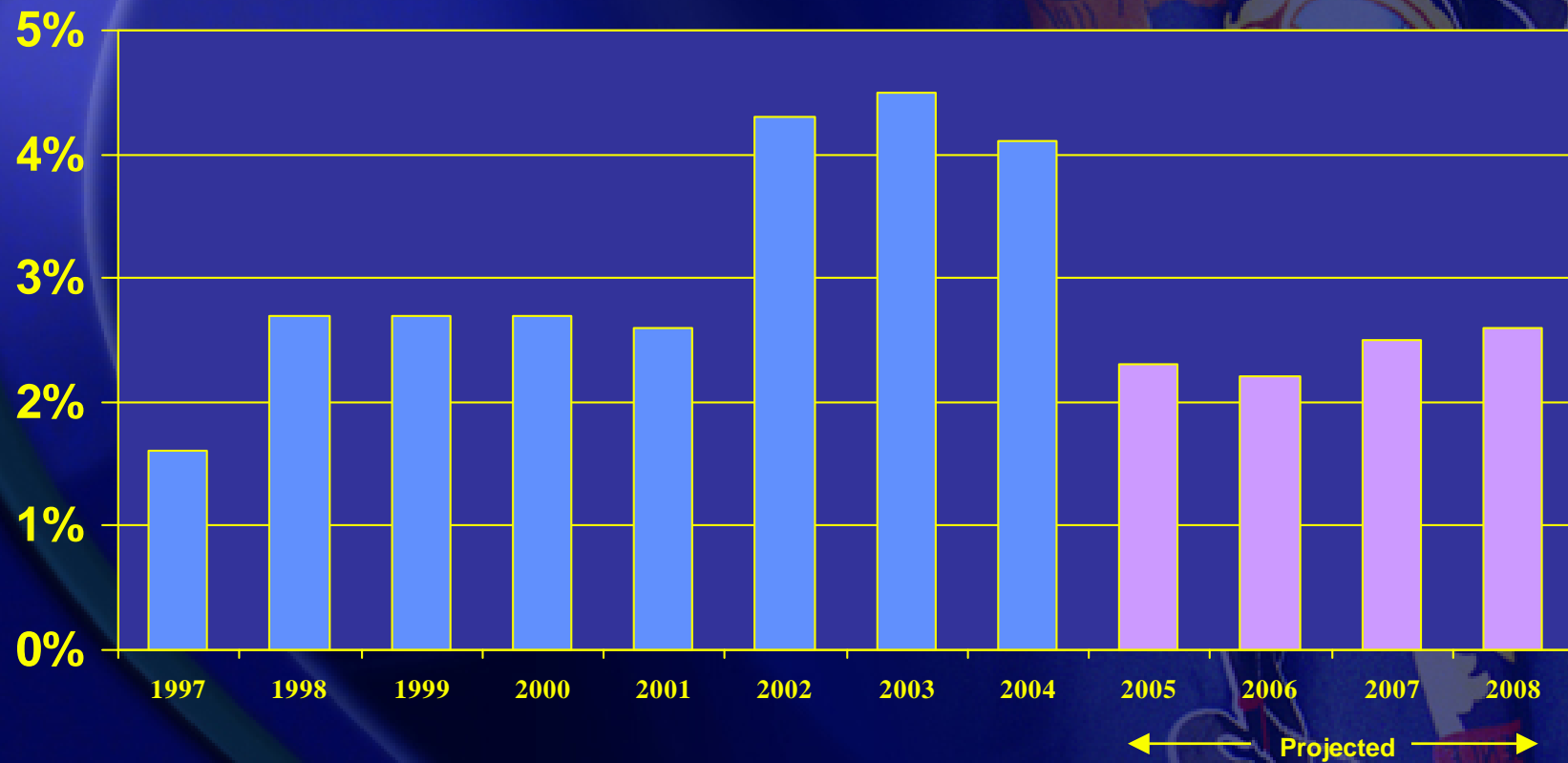
*PA real personal income is projected to lag the national average in 2005 and 2006 as it has in the past during periods of economic expansion.*



# Productivity Gains

## Annualized Growth

*Recent gains in productivity, which supported rising corporate profits and wage growth, are projected to moderate considerably in the next several years.*



# Key US Economic Indicators

## Forecast Change in Key US Economic Indicators Annual Percentage Growth\*

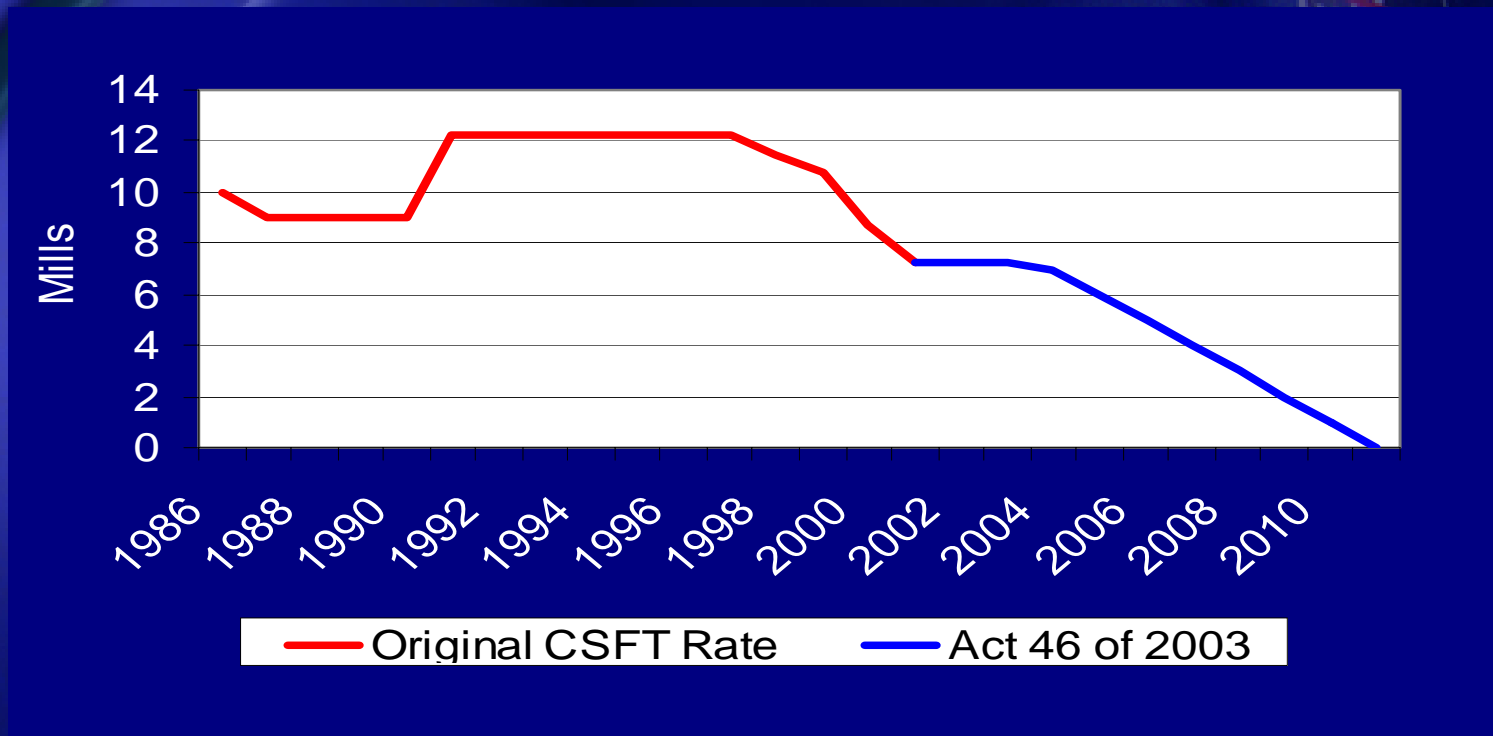
Indicator	2003	2004p	2005p	2006p
Nominal GDP	4.9	6.6	5.6	5.2
Real GDP	3.0	4.4	3.5	3.3
Real Personal Consumption	3.3	3.7	2.9	2.9
Corporate Profits (After Tax)	11.4	14.2	34.6	0.7
Unemployment Rate (Rate)	6.0	5.5	5.3	5.4
CPI	2.3	2.7	2.3	1.6
Federal Funds (Rate)	1.1	1.3	3.0	3.6

- After experiencing 4.4 percent annual growth in real GDP during 2004, annual growth is expected to moderate to 3.2 percent over the next 3 years.
- Fading monetary and fiscal stimuli are primary causes for slightly lower growth rates.
- Forecasts anticipate the recovery will continue in 2005 with the shift from a consumer led recovery to a business led recovery.
- Increased business investment has been an increasing driver of growth.
- Moderate job growth is expected to continue during 2005.

# General Fund Revenues



# Capital Stock and Franchise Tax



- The Capital Stock and Franchise Tax (CSFT) phase out continues - the rate was reduced to 5.99 mills on January 1, 2005 and will decrease one mill in each additional tax year.
- \$2.76 billion in revenue has been foregone since 2000 as a result of these CFST rate reductions.
- Collections decrease from \$984M in 2003-04 to \$958M in 2004-05 and to \$869M in 2005-06.
- An additional \$744.7 million would be collected in 2005-06 if the CSFT rate had remained at 10.99 mills.

# General Fund

## FY04-05 Year-to-Date – Collections vs. Estimate

	<u>FY05 Official Est</u> <u>YTD @ 7 Mos</u>	<u>FY05 Actual</u> <u>YTD @ 7 Mos</u>	<u>\$ Diff</u>	<u>% Diff</u>
<b>Business/Corporate Taxes</b>	1,337,200	1,415,251	78,051	5.8%
<b>Personal Income Tax</b>	4,592,800	4,650,160	57,360	1.2%
<b>Sales and Use Tax</b>	4,780,100	4,817,711	37,611	0.8%
<i>Motor</i>	723,900	725,380	1,480	0.2%
<i>Nonmotor</i>	4,056,200	4,092,331	36,131	0.9%
<b>Cigarette Tax</b>	477,700	447,769	(29,931)	-6.3%
<b>Recurring - Total</b>	<b>11,187,800</b>	<b>11,330,891</b>	<b>143,091</b>	<b>1.3%</b>
% of Total	92%		55%	
<b>Escheats</b>	14,000	86,406	72,406	517.2%
<b>Realty Transfer Tax</b>	241,200	285,869	44,669	18.5%
<b>Treasury</b>	67,500	100,685	33,185	49.2%
<b>All Other</b>	190,500	202,571	12,071	17.5%
<b>Lic. And Fees</b>	71,500	63,265	(8,235)	-11.5%
<b>Inheritance Tax</b>	443,600	407,408	(36,192)	-8.2%
<b>Non-Recurring - Total</b>	<b>1,028,300</b>	<b>1,146,204</b>	<b>117,904</b>	<b>11.5%</b>
% of Total	8%		45%	
<b>TOTAL</b>	<b>12,216,100</b>	<b>12,477,095</b>	<b>260,995</b>	<b>2.1%</b>



# General Fund Revenue Collections

*Projections for the fiscal year indicate that collections will exceed estimates by \$291 million. Collections would have exceeded estimate by \$326 million if not for the negative impact of recent Federal tax law changes.*

## **Non-recurring events that overstated year-to-date collections**

- \$72 million in escheats revenue from additional collections from insurance company demutualizations actually carried out last year; some of this gain will be returned to policyholders.
- \$36 million in a single payment received in October which has contributed to excess Corporate Income Tax collections.
- \$33 million in Treasury interest earnings based on market gains that will not be repeated.

## **Projected events that will depress balance-of-year collections**

- \$35 million reduction in Gross Receipts Tax following enactment of the US Internet Tax Nondiscrimination Act.
- \$66 million Inheritance and Cigarette Tax receipts lower than estimates.

# Major Tax Reduction Initiatives

<i>Dollars in Millions</i>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Continued CSFT Phase Out	\$ 8.8	\$ 66.7	\$ 199.5	\$ 361.6
Low Income Exemption Expansion	-	13.9	13.6	13.3
Research and Development Tax Credit Expansion	-	15.0	15.0	15.0
Sales Tax Credits (Call Centers)	-	30.0	30.0	30.0
Sales Tax Credits (Telecommunications)	-	40.2	42.6	45.3
Inheritance Tax (recouple to federal return basis)	22.1	55.2	76.7	83.6
Education Improvement Tax Credits	10.0	15.0	15.0	15.0
Keystone Innovation Zone Tax Credits	-	-	-	25.0
Film Production Tax Credit	-	-	10.0	10.0
Green Sales Tax Holiday*	-	-	2.6	4.8
<b>Total</b>	<b>\$ 40.9</b>	<b>\$ 236.0</b>	<b>\$ 405.0</b>	<b>\$ 603.6</b>

\*Includes additional items proposed in Governor's FY 2005-06 Budget

- Education Improvement Tax Credits were expanded in Act 48 of 2003 by \$10 million to \$40 million for donations to organizations that provide grants to fund innovative education programs in public schools.
- Special poverty tax forgiveness will total \$298.7 million in 2005-06. The dependent allowance is increased from \$9,000 to \$9,500. Exemptions remain at \$6,500 for single claimants and \$13,000 for married claimants with no dependents so that a family of four with two claimants and two dependents will now pay no state income tax on taxable income up to \$32,000.
- This budget includes a green sales and use tax holiday for qualifying residential purchases of Energy Star appliances.
- Research and Development Tax Credit was increased from \$15 million to \$30 million in Act 46 of 2003.

# General Fund Expenditures



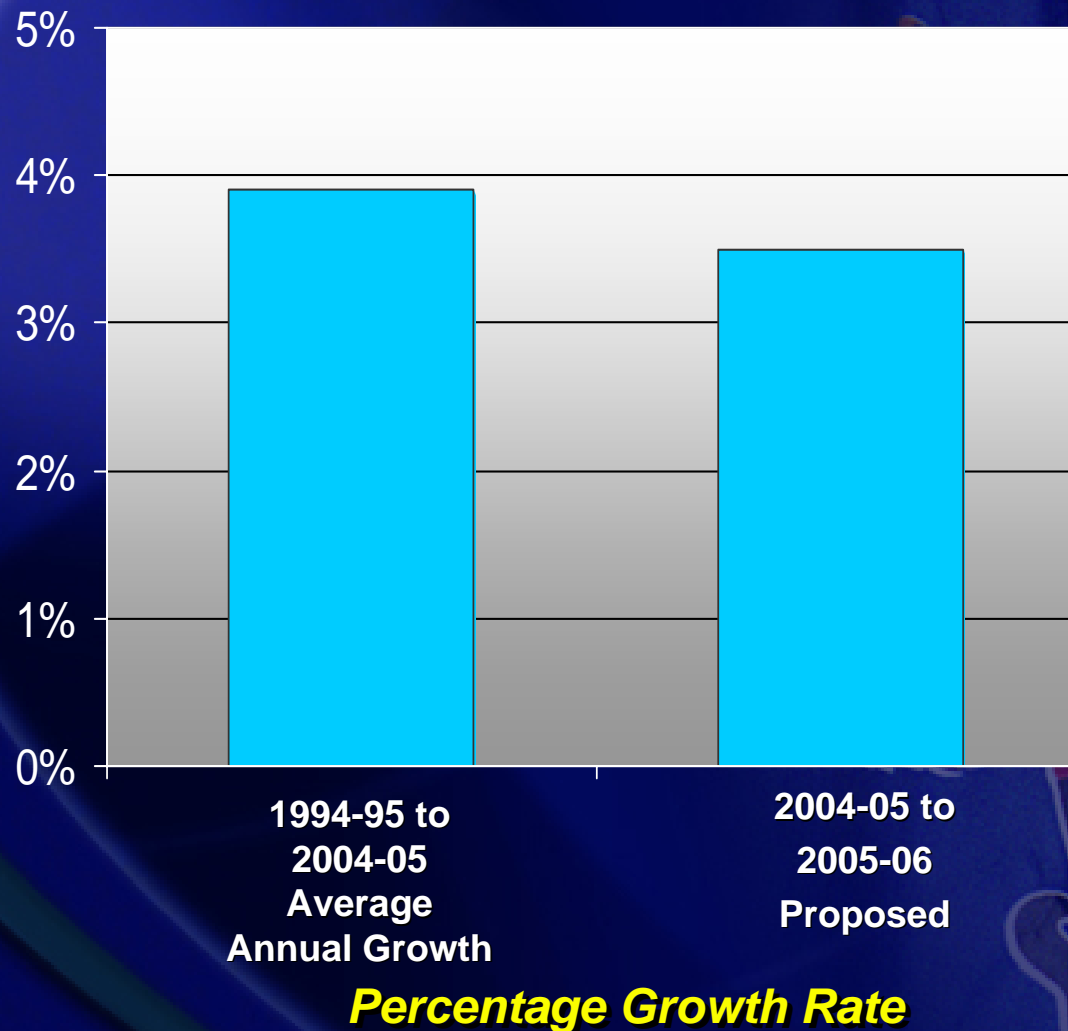
# General Fund Expenditures

	(Dollar Amounts in Millions)		
	2004-05	2005-06	Change
Basic Education .....	\$ 7,837	\$ 8,053	\$ 216
Higher Education .....	1,884	1,908	24
Medical Assistance .....	4,214	4,499	285
Other Public Welfare .....	3,647	3,973	327
Debt Service .....	400	759	359
Corrections .....	1,338	1,346	8
All Other .....	3,712	3,308	- 404
<b>Total .....</b>	<b>\$ 23,031</b>	<b>\$ 23,846</b>	<b>\$ 815</b>

# Growth in General Fund Expenditures

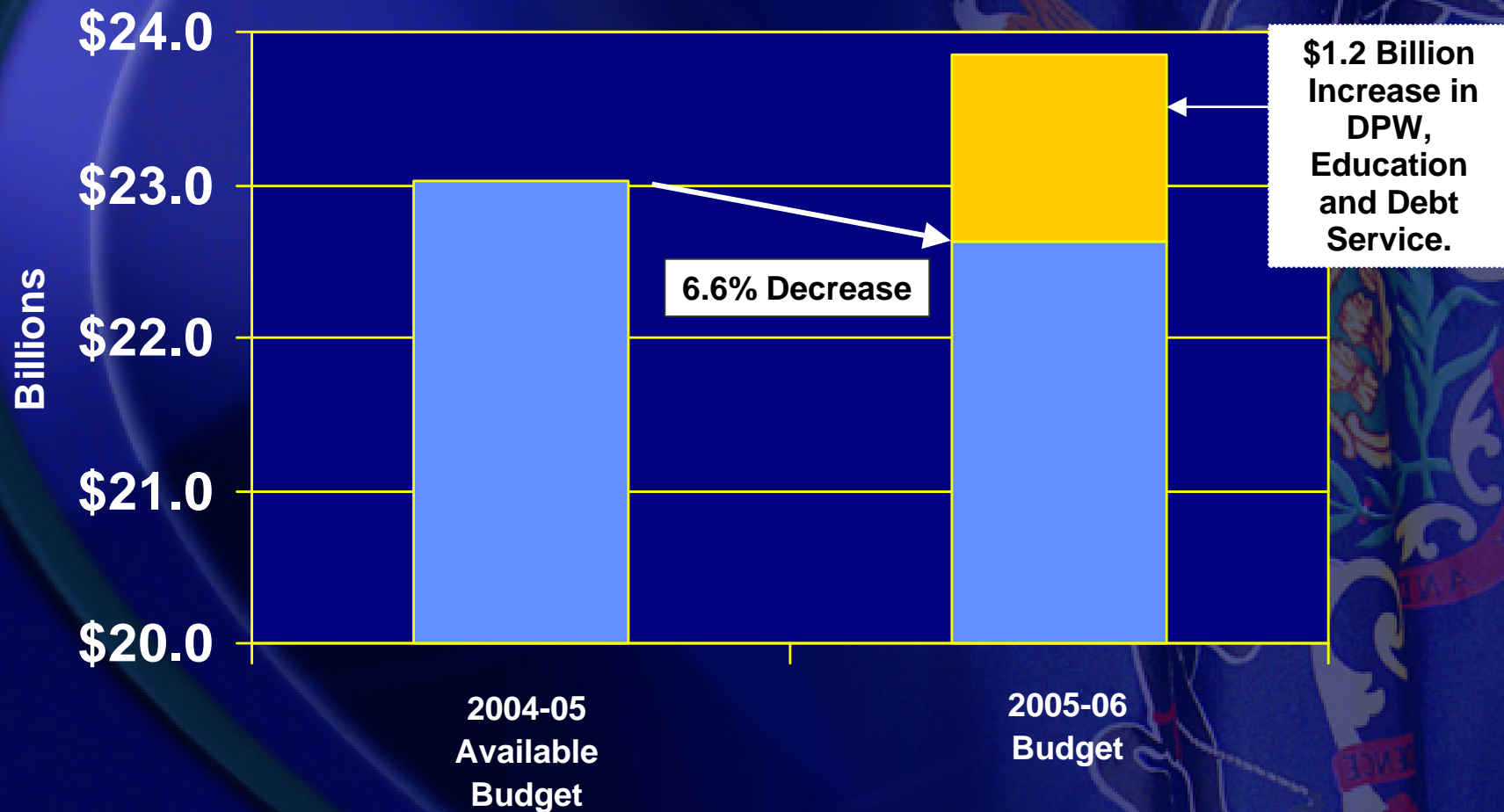
## The 2005-06 Budget

### Compared to Recent Growth Trends



# Growth in 2005-06 Expenditures

Expenditures increase by 3.5% in the proposed 2005-06 budget, but if Public Welfare, Education and Debt Service (replacing non-recurring Federal fiscal relief funds) are removed, expenditures actually decline by 6.6%.



# Supplemental FY 2004-05 Appropriations

(Dollar Amounts in Thousands)

	2004-05 <u>Available</u>
<b>Education</b>	
Community Colleges Capital Leases and Debt Service.....	\$ 1,800
<b>Health</b>	
Newborn Screening.....	\$ 806
<b>Emergency Management Agency</b>	
September 1999 Tropical Storm Disaster-Hazard Mitigation.....	\$ 1,000
September 2004 Tropical Storm Ivan- Public Assistance.....	\$ 5,000
<i>Supplements \$5 million in existing General Fund authorization; along with \$12.5 million from the Motor License Fund in 2005-06 will leverage \$80 million in Federal funds over two fiscal years.</i>	
<b>Military and Veterans Affairs</b>	
Scotland School for Veterans' Children.....	\$ 400
<b>Public Welfare</b>	
Medical Assistance.....	\$ 117,550
<i>Outpatient \$41.9 million increased caseload and costs.</i>	
<i>Inpatient \$1.65 million increased caseload and costs.</i>	
<i>Capitation \$61.6 million increased caseload and behavioral health costs</i>	
<i>Long Term Care \$9.4 million cost increases including loss of Federal funding.</i>	
<i>Transportation \$3.1 million increased cost per trip and use of program.</i>	
Other Welfare includes cash grants disaster match and Community Mental Retardation services cost increase.....	\$ 27,480
<b>TOTAL.....</b>	<b>\$ 154,036</b>

The background of the slide is a dark blue gradient. On the left side, there is a stylized, semi-transparent globe with a greenish-blue outline. On the right side, there is a faint, light-colored version of the coat of arms of the Commonwealth of Massachusetts. The coat of arms features a central shield with a Native American figure holding a bow and arrow. Above the shield is a crest consisting of a bent arm holding a broadsword. The shield is supported by two figures: a Native American on the left and a figure on the right. A ribbon scrolls across the bottom of the shield with the word "SIGILLUM" and another ribbon below it with the word "LIBERTY".

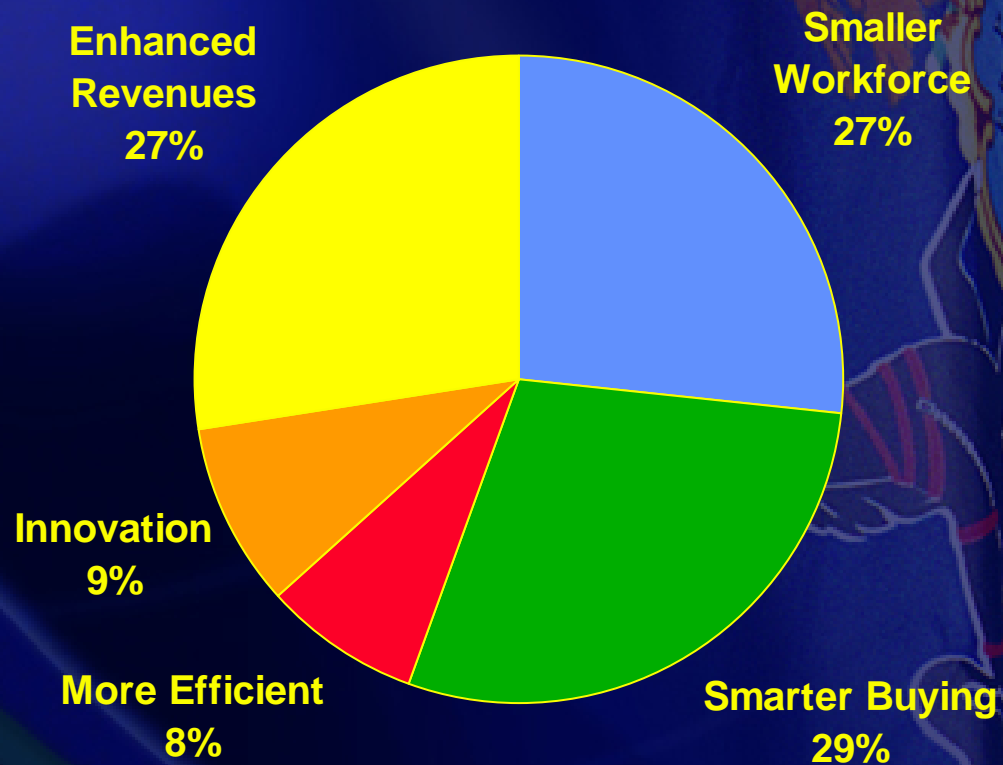
**Making Government  
Work Smarter**



# Making Government Work Smarter

## *Applying Private Sector Practices to Government*

Over the past two years, the Rendell Administration has transformed the way that Commonwealth government works, generating more than \$475 million through reduced spending, cost avoidance, enhanced revenues, and improved management across agencies. These initiatives applied a private sector decision-making model and have helped agencies maintain service levels with less funding.



# Making Government Work Smarter

## *Saving Taxpayer Dollars While Increasing Service*

### Creating a Smaller and More Efficient Government

- 2,883 Fewer Positions (\$160M)

### Innovation by Commonwealth Agencies

- SSI Check Writing (\$30M)
- DPW Efficiencies in MH/MR Facilities (\$4M)

### Agencies Working Together

- Human Services Call Center
- Document Processing

### Making Government Work Smarter

### Using Private Sector Business Practices

- Smarter Buying (\$130M)
  - Fleet Management (\$15M)
  - Warehouse Consolidation (\$4M)

### Improving Taxpayer Service and Revenue Collections

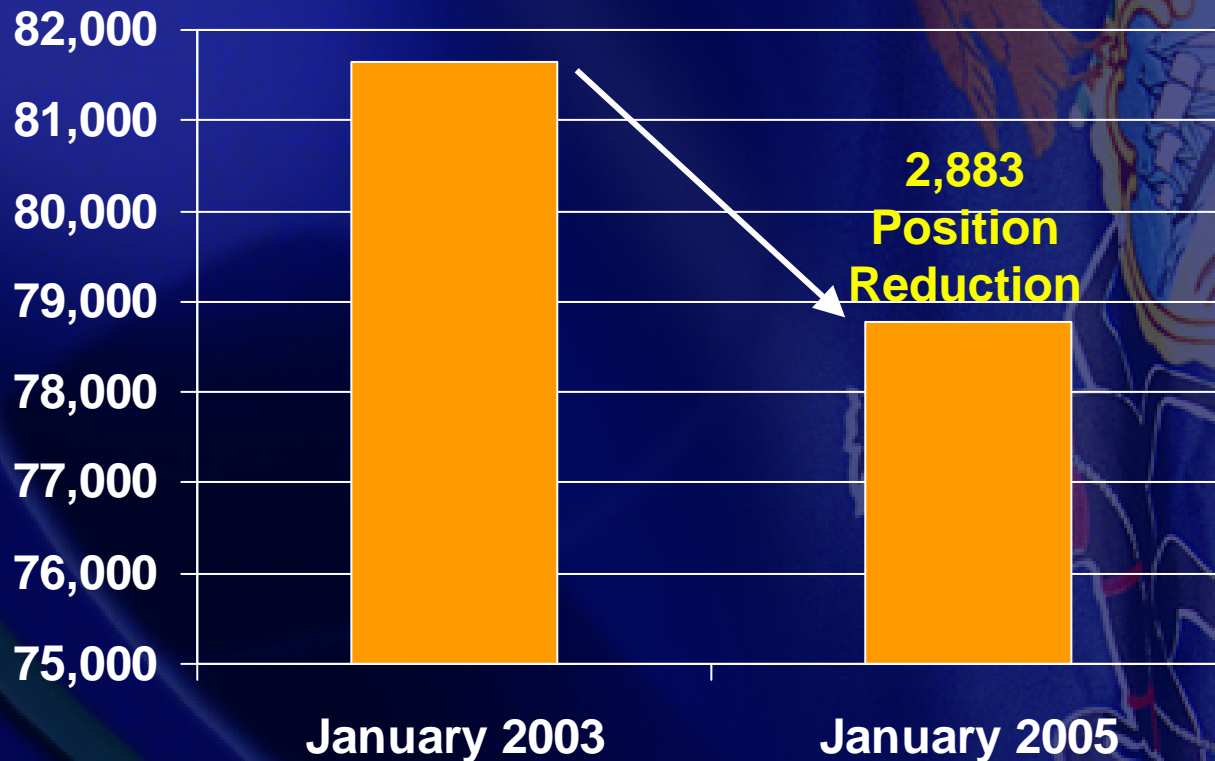
- DOR District Office Consolidation (\$4M)
- 2.25 Million Electronic Tax Returns (14% increase)

### Serving Citizens Better Through Technology

- 97% of Driver License Customers Served in 30 Minutes
- 40% Increase in PennDOT transactions done online

# Filled Salaried Complement

*Since the beginning of the Administration, the number of filled positions has decreased 3.5% from 81,657 to 78,774, through attrition. General Fund administrative costs in the 2005-06 Budget are \$196 million or 10% lower than 2002-03 despite the need to fund wage, health benefit and pension cost increases.*



# Summary of Major Provisions

## PA Collective Bargaining Agreements

### FY 2003-04 to FY 2006-07

*In order to cover rising healthcare costs, Pennsylvania's major collective bargaining units agreed to contracts with significant wage restraint. The Pennsylvania State Police Troopers Association bargaining unit was the only major unit whose contract award did not follow this pattern.*

#### Pay Increases

##### General Salary Pay Increases:

- FY 2003-04            0%
- FY 2004-05            0%
- FY 2005-06            3.0% (effective July 1, 2005)
- FY 2006-07            3.5% (effective Jan 1, 2007)

##### Annual Service Increments:

- NONE
- One Step effective July 2004
- NONE
- One Step effective July 2006
- One Step effective Jan 2007

#### Health Benefits

- **Increase in financial contributions by the Commonwealth**  
from \$190 per employee pay period to:

- FY 2003-04\*            \$235
- FY 2004-05            \$270
- FY 2005-06            \$275
- FY 2006-07            \$300

\* (plus an \$80 million lump sum contribution in FY 2003-04)

\* Only includes bargaining units whose contracts expired 6/30/03. Does not include Corrections Officers whose contract expired on 6/30/04.

- **Significant Health Plan Redesign and Restructuring**

# **Expanding Economic Opportunity for Pennsylvanians**

- **Economic Stimulus Program**
- **Business Tax Reform**
- **Workforce Development: Job Ready PA**

# Enacted Economic Stimulus Legislation

*Over the past year the General Assembly enacted several pieces of legislation that together make up the Commonwealth's Economic Stimulus Program, a comprehensive integrated set of programs in which the Commonwealth is investing \$2.3 billion to jump-start Pennsylvania's economy and leverage at least \$5 billion in private investment. Funds are targeted towards the following areas: site preparation, infrastructure and construction; community revitalization and business development.*

- ✓ **Act 12 of 2004**
  - Expands Machinery and Equipment Loans to make biotech and medical facilities eligible for loans.
  - Creates Keystone Innovation Zones (KIZs) to encourage research and development in cooperation with institutions of higher education.
- ✓ **Act 22 of 2004** creates the Commonwealth Financing Authority (CFA) to issue economic development bonds to finance several major Stimulus programs.
- ✓ **Act 23 of 2004** establishes Tax Increment Financing- Multi year grants to issuing authorities toward payment of debt service on local projects. Grants are based on anticipated sales, hotel occupancy, and personal income taxes to be generated.

# Why Pennsylvania Needs An Economic Stimulus Program

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- Only two states had slower population growth than PA between 1990 and 2000 (West Virginia and North Dakota).
- Between 1990 and 2000, PA lost 7.4 percent of young workers between the ages 25-34, the ninth largest loss in the nation.
- Between 1992 and 2002, PA employment grew by only 11.4 percent, compared to 20 percent in the nation.
- Growth in average annual pay also lagged in PA, increasing by only 10.2 percent from 1991 to 2001, compared to 13.2 percent nationally.
- PA ranked 44<sup>th</sup> for new business starts and growth in 2001.

*"Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania"  
Brookings Institution, December 2003.*

# Site Preparation, Infrastructure & Construction:

*Creating job-ready sites and turning vacant industrial properties into viable business locations.*

## Site Preparation programs funded through Loans & Grants:

- **Pennsylvania Business In Our Sites** - \$300 million for site preparation and infrastructure.
- **PennWorks** - \$200 million Construction, rehabilitation and upgrade of water and sewer systems needed for economic development projects. An additional \$50 million will be available through PennVEST.
- **Tax Increment Financing (TIF) Guarantee Program** - \$100 million in loan guarantees. Provides technical assistance to guide municipalities through process of creating TIF districts.
- **Redevelopment Assistance Capital Program** - \$640 million grant program used for construction related projects.
- **Building PA Program** - \$150 million for mezzanine debt and equity investments for construction projects.

## Site Preparation programs funded through Annual Operating Budget Allocation:

- **Infrastructure and Facilities Improvement Program** - Grants for projects that result in incremental state tax revenue -- funds targeted to manufacturing, hospital, retail and convention center projects.



# Community Revitalization

*Renewing downtown areas and business districts, expanding housing opportunities and retaining young people.*

## Community revitalization programs funded through Loans & Grants:

**Section 108 (HUD) Program** - \$288 million in federal financing for economic development loans backed by the Commonwealth.

## Community revitalization programs funded through Annual Operating Budget Allocation:

**Main Street** - \$5 million for 60 projects (anticipated) in 2005-06 in a five-year program designed to help a community's downtown economic development effort through the establishment of a local organization dedicated to downtown revitalization.

**Elm Street** - \$5 million for 50 projects (anticipated) in 2005-06. The funding will provide assistance and resources to residential and mixed-use areas in proximity to central business districts. This approach will further enhance downtown area as it improves the viability of our older neighborhoods.

**Housing & Redevelopment Assistance** - \$30 million for 65 projects (anticipated in 2005-06). The program will provide flexible funding to cities and smaller urban areas to redevelop and reuse blighted and/or vacant property, to expand housing opportunities and to promote stability of neighborhoods.

**Homeownership Choice Program**- \$15 million in 2005-06 to finance new, single-family home construction in blighted urban areas of the Commonwealth.

# Business Investment

*Creating high growth employment opportunities for Pennsylvania's trained workers.*

## **Business investment programs funded through Loans & Grants :**

- **First Industries:** \$150 million in loans/grants for agriculture and tourism.
- **Core Industries Program:** \$50 million enhancement to the existing Machinery and Equipment Loan Fund with increased maximum loan amounts and lower interest rates. \$25 million for hospitals for technology to reduce pharmaceutical errors.
- **Second Stage Loan Program:** \$50 million in loan guarantees for successful PA businesses seeking working capital from banks. Funds targeted to manufacturing, advanced technology and biotechnology.
- **New Venture Investment Guarantee:** \$250 million in investment guarantees to attract top-tier investors from around the country.
- **Pennsylvania Venture Capital Program:** \$60 million for venture capital companies with at least 50% reserved for underserved areas.

## **Business investment programs funded through Annual Operating Budget Allocation :**

- **Base Retention and Conversion Program:** \$3.3 million for development of a statewide strategy and grants for activities in PA.
- **Keystone Innovation Zones:** \$25 million per year in tax credits and \$2 million in grants for university tech-transfer aimed at new company creation in 2005-06.

# Business Tax Reform

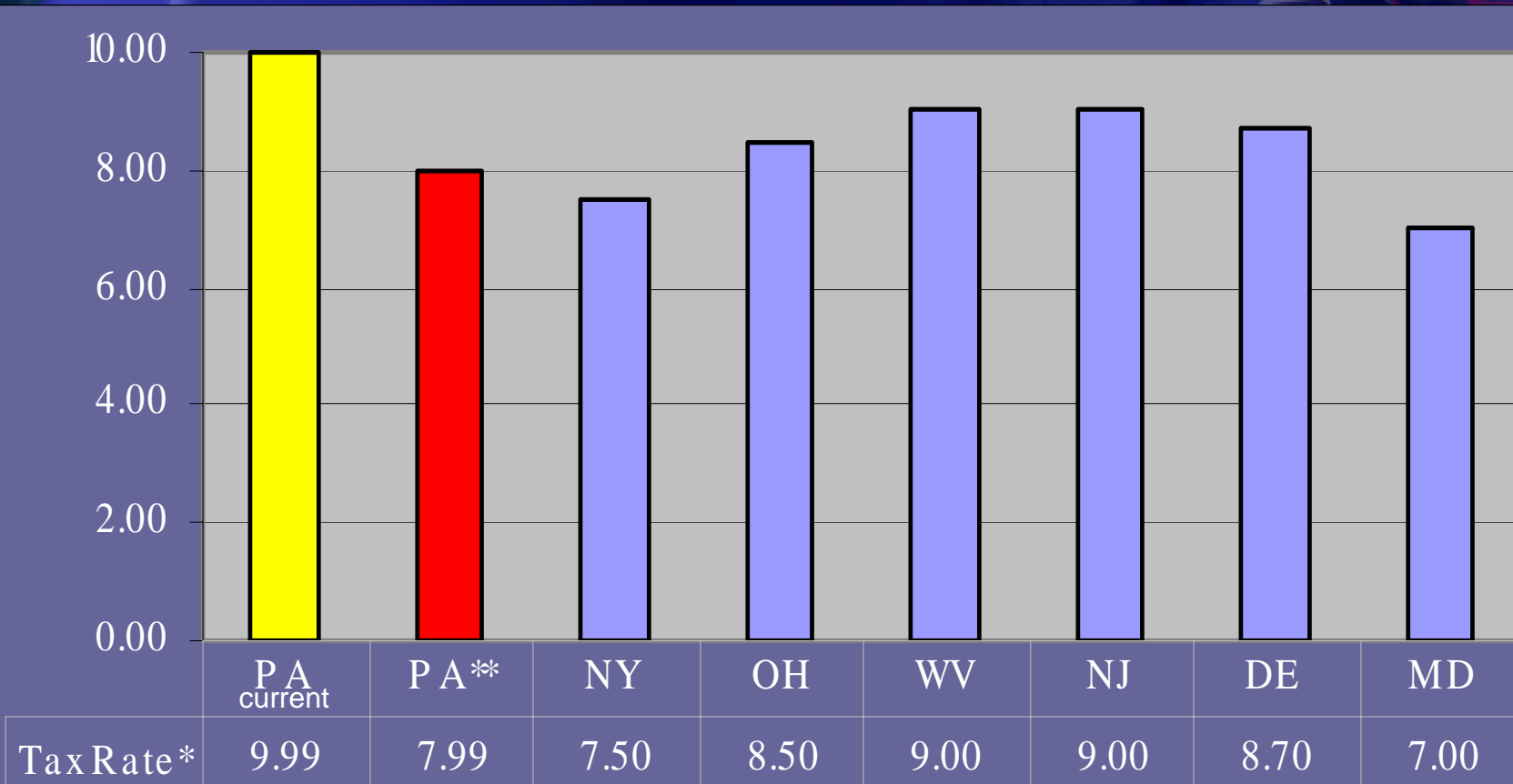
*Last March, the Governor created the Business Tax Reform Commission to recommend changes to make Pennsylvania's business tax structure more competitive. The Administration supports and proposes to adopt many of the Commission's recommendations:*

- ✓ **Reducing the CNI Tax rate to 7.99 percent.** This historic reduction will lower the CNI Tax rate two full percentage points from 9.99 percent to 7.99 percent.
- ✓ **Eliminating the \$2 million 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 from 60 percent to 100 percent.** This will encourage employers to locate/expand production in PA.
- ✓ **Shifting 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/expenses for tax purposes.
- ✓ This budget also recommends expanding the Commonwealth's **Business Tax Clearance** process to include the licensees of five additional departments (Banking, Environmental Protection, Insurance, State and the Securities Commission). The expansion will require that the appropriate tax returns be filed before business licenses can be granted or renewed. The new system will generate \$16.5 million in net General Fund revenues annually after the initial year of implementation.

# Comparison of Corporate Income Tax Rates

## PA versus Neighboring and Major States That Impose Corporate Income Taxes

*Pennsylvania currently has the third highest Corporate Income Tax rate in the U.S.  
At 7.99% PA's rate would be comparable to or lower than the rates charged in competing states.*



\* Based on comparison of top tax rate per state.

\*\* Proposed rate beginning January 1, 2007.

# **Job Ready Pennsylvania**



# **Over the Last Two Years the Foundation for a More Vibrant Pennsylvania Economy Was Created**

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## **The Three Corners of the Foundation...**

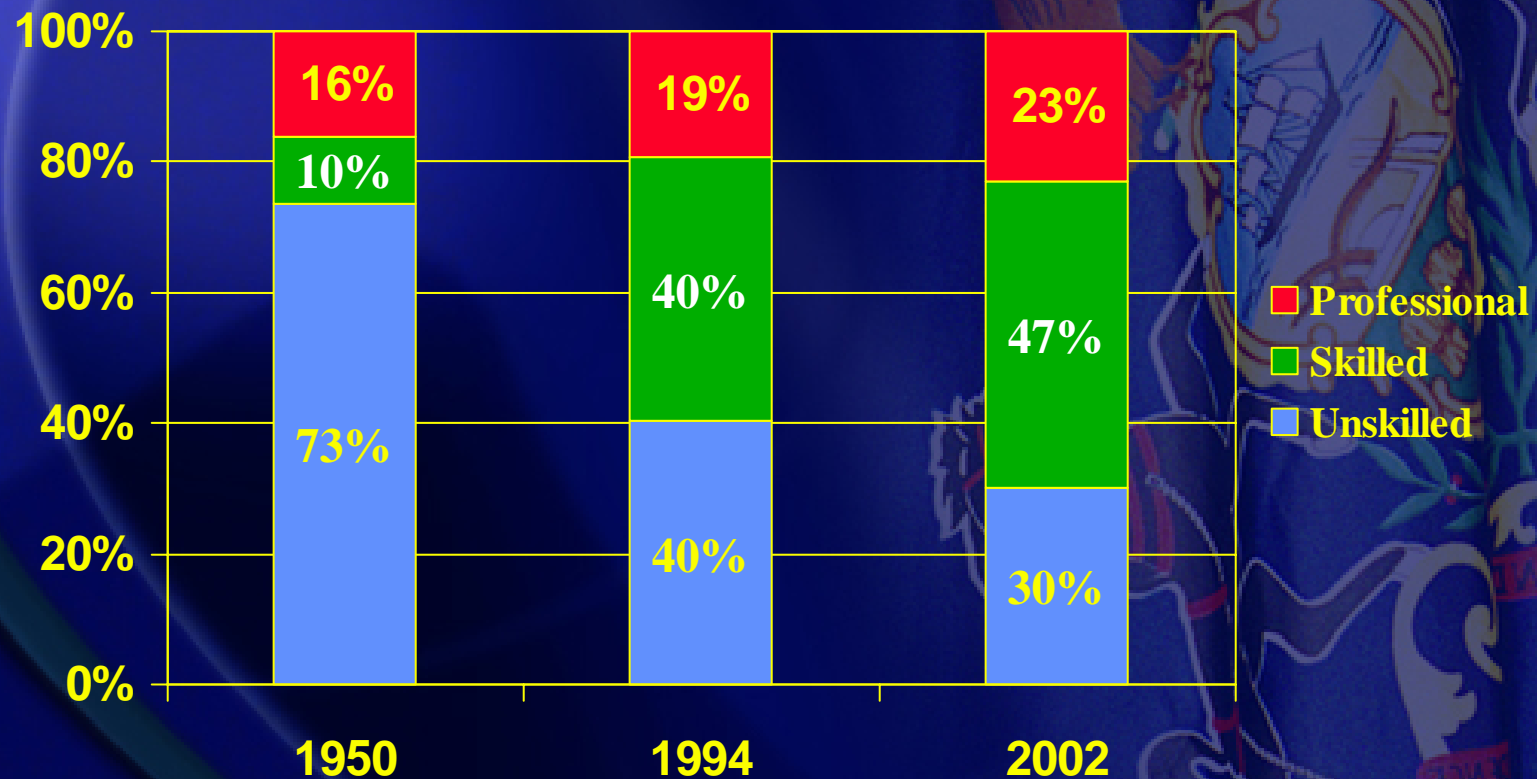
- 1. Property Tax Relief**
- 2. Boosting Student Achievement**
- 3. Economic Stimulus**

**... Now PA Needs to Create the Fourth Corner of the Foundation for Economic Success:**

**Job Ready Pennsylvania**

# Unskilled Jobs are Disappearing and the Demand for Skills is Rising

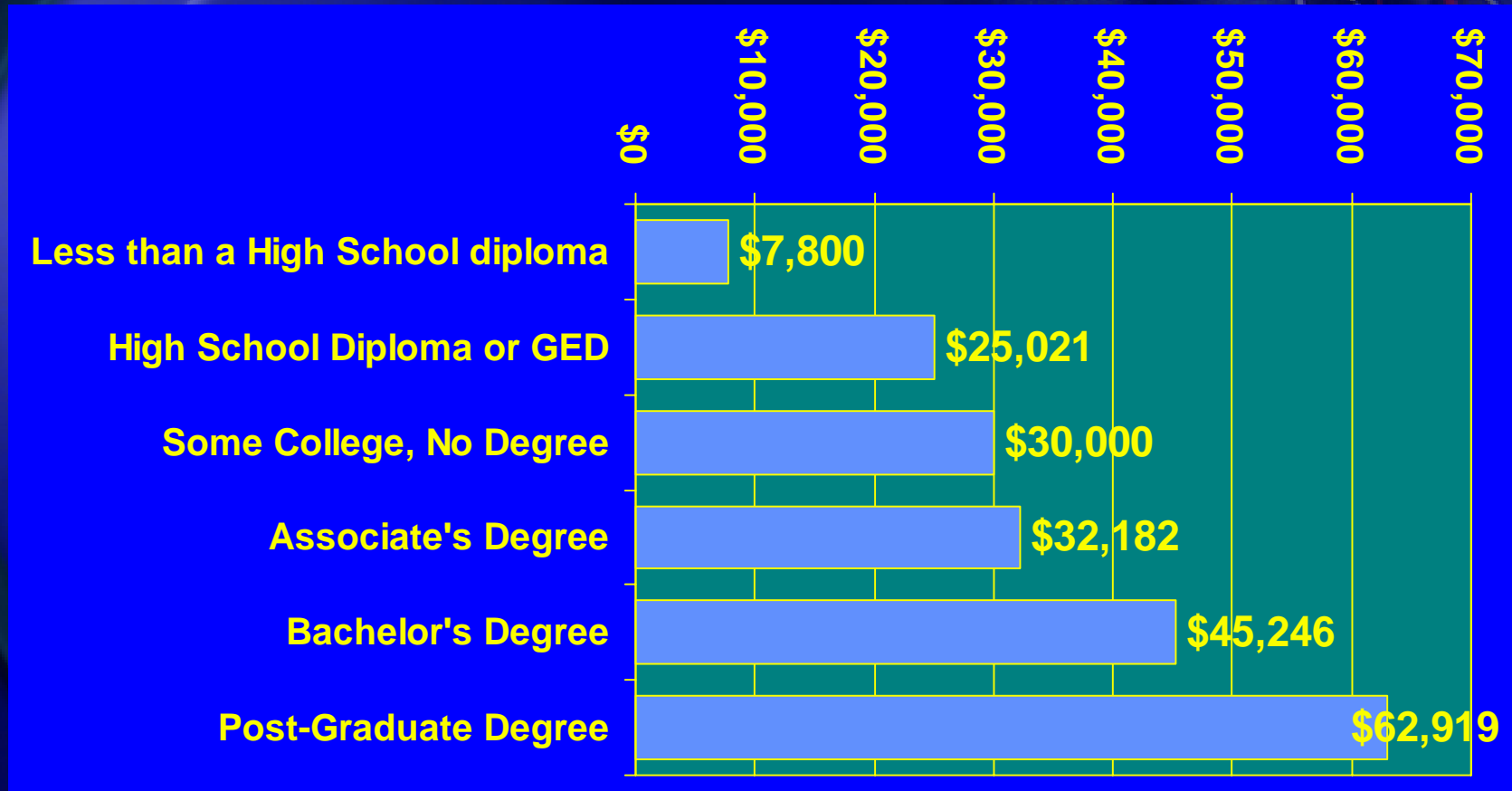
*The need for skilled labor is increasing, yet Pennsylvania faces significant challenges in this area. Nearly 82% of businesses surveyed by the Business Calling Program since 2003 say they are having difficulty recruiting, and Pennsylvania ranks 46th among states in percent of persons with a high school diploma or less.*



Source: U.S. Bureau of Census and Pennsylvania Department of Labor and Industry, Center for Workforce Information and Analysis (Pennsylvania statewide)

# Less Education Means Lower Earnings

Median Pennsylvania Income by Educational Attainment (2004)



Source: U.S. Bureau of Census, Current Population Survey (CPS), March Supplement



# Job Ready PA

will meet the hiring needs of employers by building the skills of students and adults:

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- ✓ **Building High Schools of the Future**
  - \$4.7 million to increase the academic rigor of high school.
- ✓ **Reforming Career and Technical Education**
  - Redirecting over \$80 million over the next 5 years for state-of-the-art equipment and curriculum.
- ✓ **Strengthening Community Colleges**
  - \$22.8 million increase in Community College funding and a targeting of funding for a greater emphasis on job-readiness.

## ✓ **Increase Access to Higher Education**

- \$55 million to make college more affordable and help full-time workers boost their skills through post secondary education.

## ✓ **Investing for Pennsylvania's Prosperity Awards**

- \$22 million in rewards and incentives for Workforce Investment Boards, including Partnering with Employers to Close Workforce Gaps that will provide -
  - \$15 million in new funding for employer-driven training developed through industry partnerships.

## ✓ **Helping Workers Train for Better Jobs**

- \$10 million new PHEAA grant program to enable 10,000 adult students to obtain certificates in high-priority occupations.

## ✓ **Giving Adult Workers Credit for What They Know**

- \$60,000 to develop a system to recognize prior learning.

# Job Ready Pennsylvania Will Pay Big Dividends

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- **Pennsylvania's workforce development system currently operates with approximately \$2 billion in state and federal funds annually.**
- **Job Ready PA will target \$101 million in new funds (and \$198 million in total funds) to increase and improve the capacity of the workforce training system so that its resources are more strategically focused.**
- **The result will be a more efficient system that does a better job meeting employers' needs for qualified workers.**

# Job Ready Pennsylvania

invests \$101 million to better leverage  
\$2 billion in existing funding

	New State Funds	Reallocation of Existing Resources	Private Sector/ Other Match	Existing Funds Leveraged
High School Reform	\$ 4,700,000	\$ -	\$ -	\$ 842,690,534
Dual Enrollment	\$ 5,000,000	\$ -	\$ -	\$ -
Tutoring	\$ 38,000,000	\$ -	\$ -	\$ -
Career & Technical Education	\$ 1,455,000	\$ 8,000,000	\$ 8,000,000	\$ 542,095,735
Community Colleges	\$ 22,800,000	\$ -	\$ -	\$ 229,281,000
Investing in PA's Prosperity Awards	\$ -	\$ 2,600,000	\$ -	\$ -
Partnering With Employers to Close Workforce Gaps	\$ -	\$ -	\$ -	\$ 423,100,000
Expanding Training for Adult Workers	\$ 15,000,000	\$ -	\$ 15,000,000	\$ -
Creating Industry Partnerships	\$ 5,000,000	\$ -	\$ -	\$ -
Expanding Nurse Education Capacity (PHEAA)	\$ -	\$ -	\$ 10,000,000	\$ -
Adv Tech Workers (Keystone Starter Kits)	\$ -	\$ 3,000,000	\$ 3,000,000	\$ -
Helping Workers Train for Better Jobs (PHEAA)	\$ -	\$ -	\$ 10,000,000	\$ -
Giving Adult Workers Credit for What They Know	\$ 60,000	\$ -	\$ -	\$ -
PHEAA for Student Grants	\$ 8,980,000	\$ -	\$ 45,000,000	\$ -
<b>TOTAL</b>	<b>\$ 100,995,000</b>	<b>\$ 13,600,000</b>	<b>\$ 91,000,000</b>	<b>\$ 2,037,167,269</b>

The background of the slide is a dark blue gradient. On the left side, there is a stylized, semi-transparent globe. On the right side, there is a faint, semi-transparent version of the Seal of the Commonwealth of Massachusetts, which depicts a Native American figure holding a bow and arrow, surrounded by a crest and a banner with the word "LIBERTY".

**Investing in Our Children,  
Increasing Academic Achievement**

# Investing In Pennsylvania's Future

*The FY 2005-06 budget increases total State education funding by 2.5 percent.*

- **\$109 million increase (2.5%) in Basic Education Funding** – provides for the first time ever a foundation-based funding supplement to help school districts where per-student spending is inadequate to deliver a quality education.
- **\$23.2 million increase (2.5%) in Special Education Funding.**
- **\$200 million for the second year of the Accountability Block Grants** – more than 91,000 students are benefiting from pre-kindergarten, full-day kindergarten, reduced class size and tutoring.
- **\$30 million to double the State funding for Head Start pre-kindergarten classrooms** – to serve nearly 5,000 children..
- **Job Ready PA: \$76 million for tutoring** in the most academically challenged school districts – a \$38 million increase over 2004-05.
- **Job Ready PA: \$22.8 million increase for community colleges** – the largest increase in 15 years.
- **Job Ready PA: \$5 million for dual enrollment** programs that let high school students earn college credit while they complete their graduation requirements.
- **Job Ready PA: \$4.7 million to transform Pennsylvania's high schools through Project 720, the state's high school improvement initiative.**

# Raising Student Achievement in Pennsylvania

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*Pennsylvania is making smart and aggressive investments in proven educational programs to raise student achievement.*

## **PA ACCOUNTABILITY BLOCK GRANT - \$200 million**

**To attain and maintain academic performance targets**

### **Eligible Uses:**

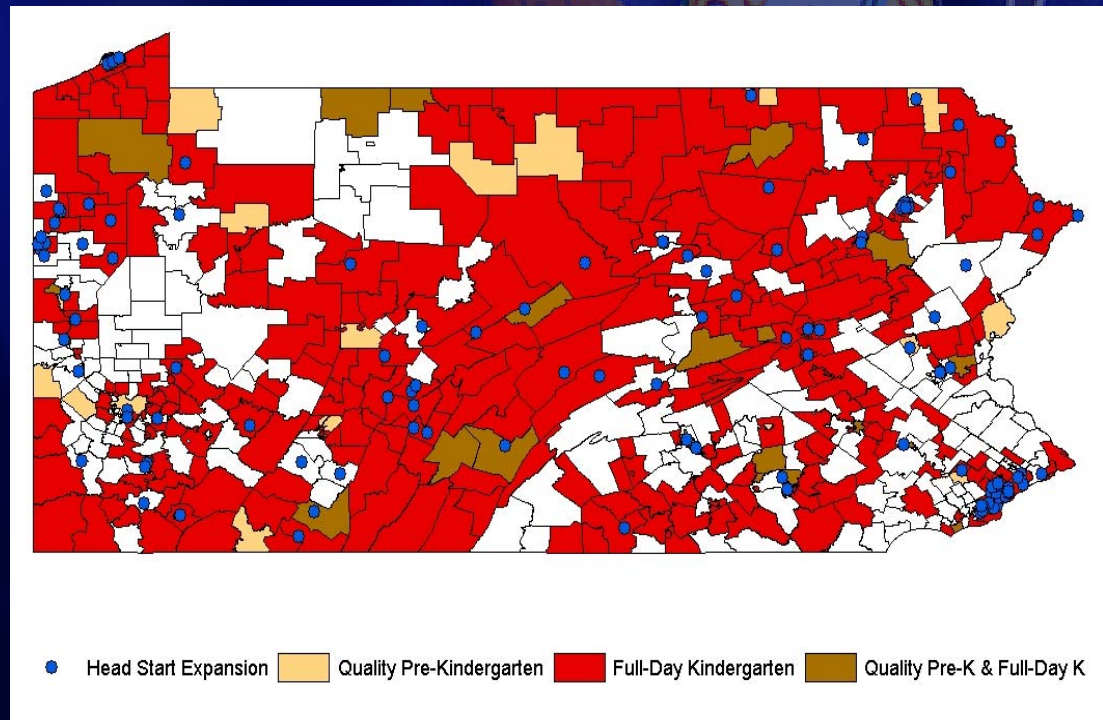
- High-quality pre-school
- Full-day kindergarten
- Small class size in grades K-3
- Tutoring
- Teacher training
- Science material and equipment
- Incentives to recruit and retain the most qualified teachers where needed the most
- Closing the achievement gap
- Strengthening the link to social and health services

# 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. These investments will continue in 2005-06 – highlighted by the doubling of funding for Head Start expansion so that this proven program can serve an additional 2,500 children.*

**In 2004-05, more than \$135 Million in State Funding for Head Start, Pre-K, and Full-Day Kindergarten - -**

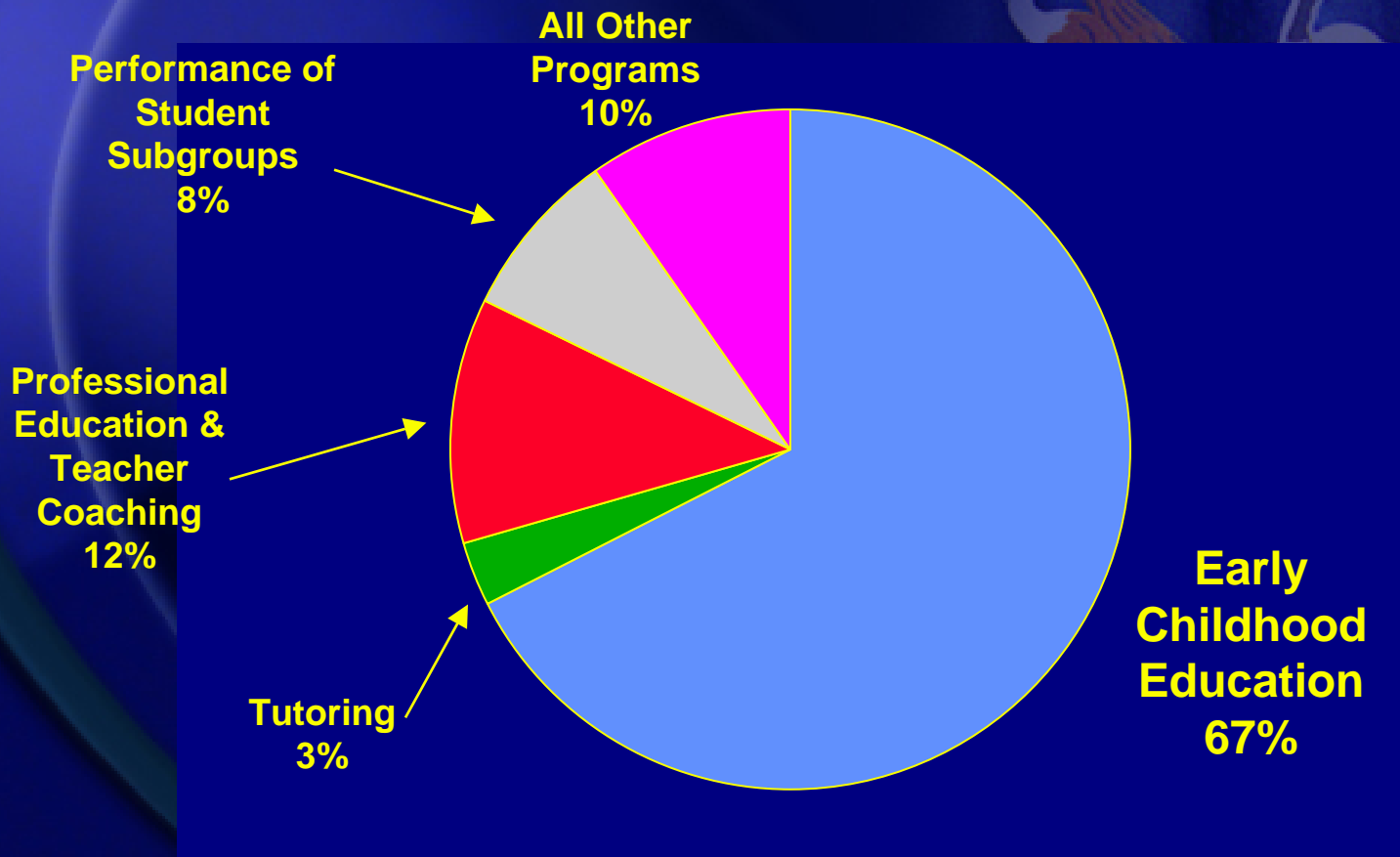
- 302 school districts funded full-day kindergarten with the Accountability Block Grant.
- 38 school districts funded quality pre-kindergarten with the Accountability Block Grant.
- 2,484 children benefited from expanded Head Start.





# Accountability Block Grant 2004-05

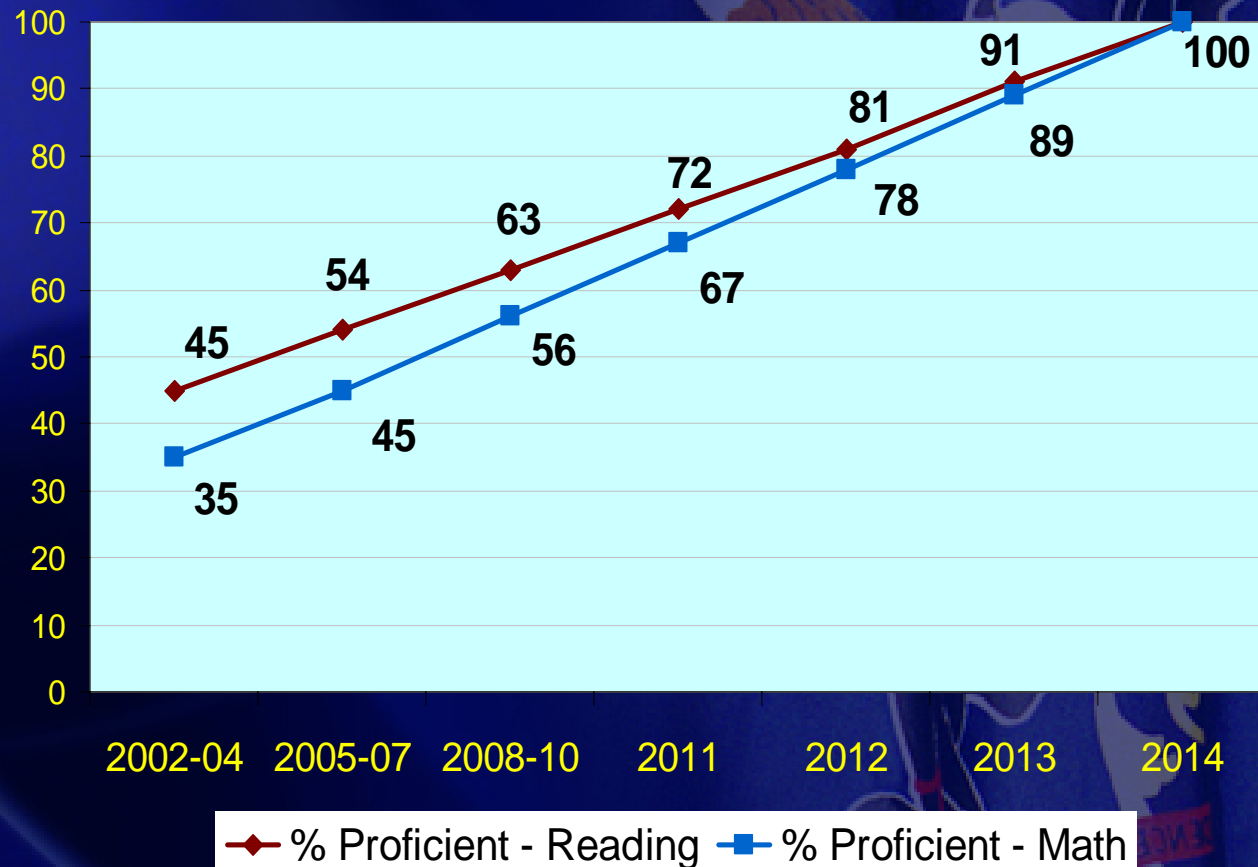
School districts received \$200 million in first-year funding of the Accountability Block Grant to invest in a menu of proven programs. More than \$2 out of every \$3 in Block Grant funding is being used to support quality early childhood education investments. This trend is expected to continue in the Block Grant's second year, with funding remaining at \$200 million.



# No Child Left Behind Reading & Math Targets

*Pennsylvania has until 2014 to reach 100 percent proficiency in reading and math, as required by No Child Left Behind. Our investment in proven educational programs must keep pace if Pennsylvania schools are to reach these achievement goals.*

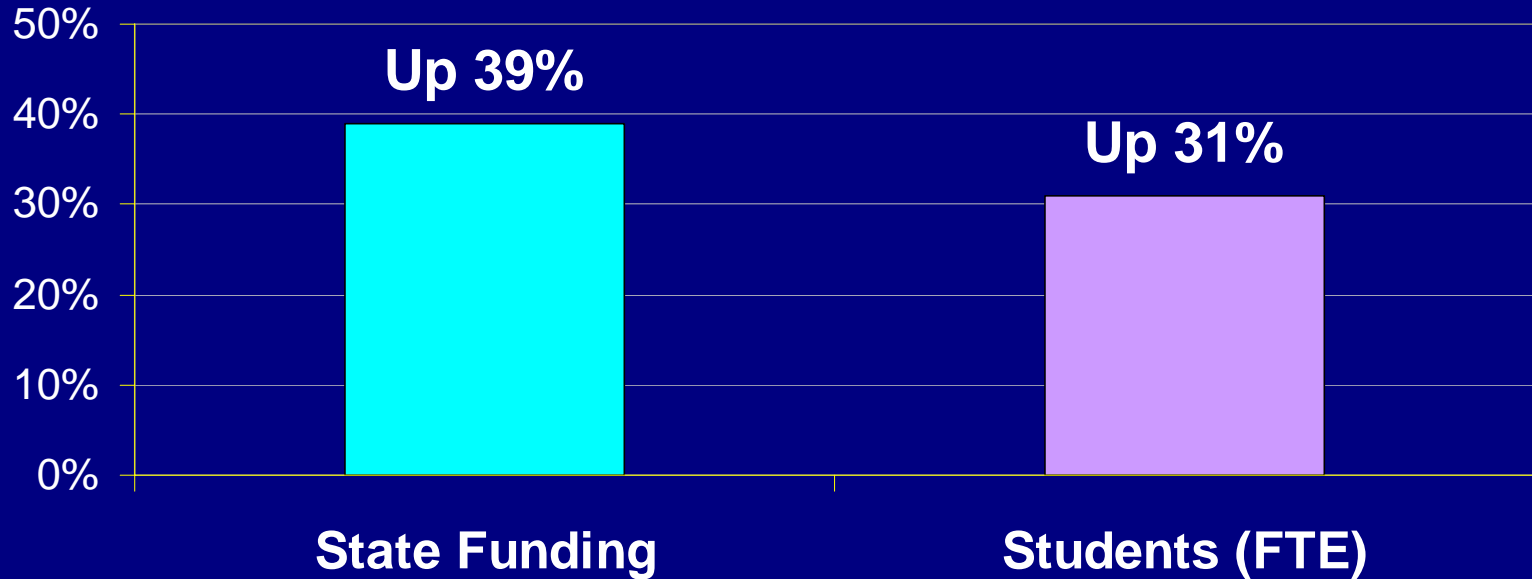
In FY 2003-04, nearly 1-in-5 Pennsylvania schools failed to make Adequate Yearly Progress, and the requirements will get even steeper beginning this Spring.



# Community Colleges

*Pennsylvania's 14 community colleges are a key part of our education and workforce development systems. The Commonwealth must establish a more adequate and predictable community college funding formula – while increasing alignment to the state's workforce development needs. **This budget includes a \$22.8 million increase, or 10 percent, for the community colleges, while making the needed reforms.***

## State Funding & Community College Students 1999-00 to 2004-05



# Higher Education in the FY 2005-06 Budget

<b>10% increase for the Community Colleges</b> .....	<b>\$ 22.8 M</b>
<b>2.25% increase for the State System of Higher Education</b> ..	<b>\$ 9.8 M</b>
<b>2.0% operating increases for the State-Related Universities</b> –	
Penn State University .....	<b>\$ 4.8 M</b>
University of Pittsburgh .....	<b>3.0 M</b>
Temple University .....	<b>3.2 M</b>
Lincoln University .....	<b>0.3 M</b>
	<hr/>
<b>Total Increase – State-Related Universities</b> .....	<b>\$ 11.3 M</b>
<b>2.5% increase for the Pennsylvania Higher Education Assistance Agency’s Grants to Students program</b> ...	<b>\$ 8.9 M</b>

# Support for Public Libraries in the FY2005-06 Budget

(In Thousands)

Year	Public Library Subsidy
1995-96	\$26,190
1996-97	\$28,550
1997-98	\$29,407
1998-99	\$30,289
1999-00	\$47,286
2000-01	\$62,289
2001-02	\$75,289
2002-03	\$75,289
2003-04	\$47,789
2004-05	\$57,914
<b>2005-06</b>	<b>\$59,362</b>

The Governor's Budget recommends a 2.5% increase in the Public Library Subsidy – to over \$59 million. This will be the fourth highest amount ever appropriated by the Commonwealth in support of public libraries.

Pennsylvania will rank 4<sup>th</sup> among all states in per capita funding for public libraries, based on the library funding in the 2005-06 Budget. Pennsylvania ranks 43<sup>rd</sup> in per capita local funding of public libraries.

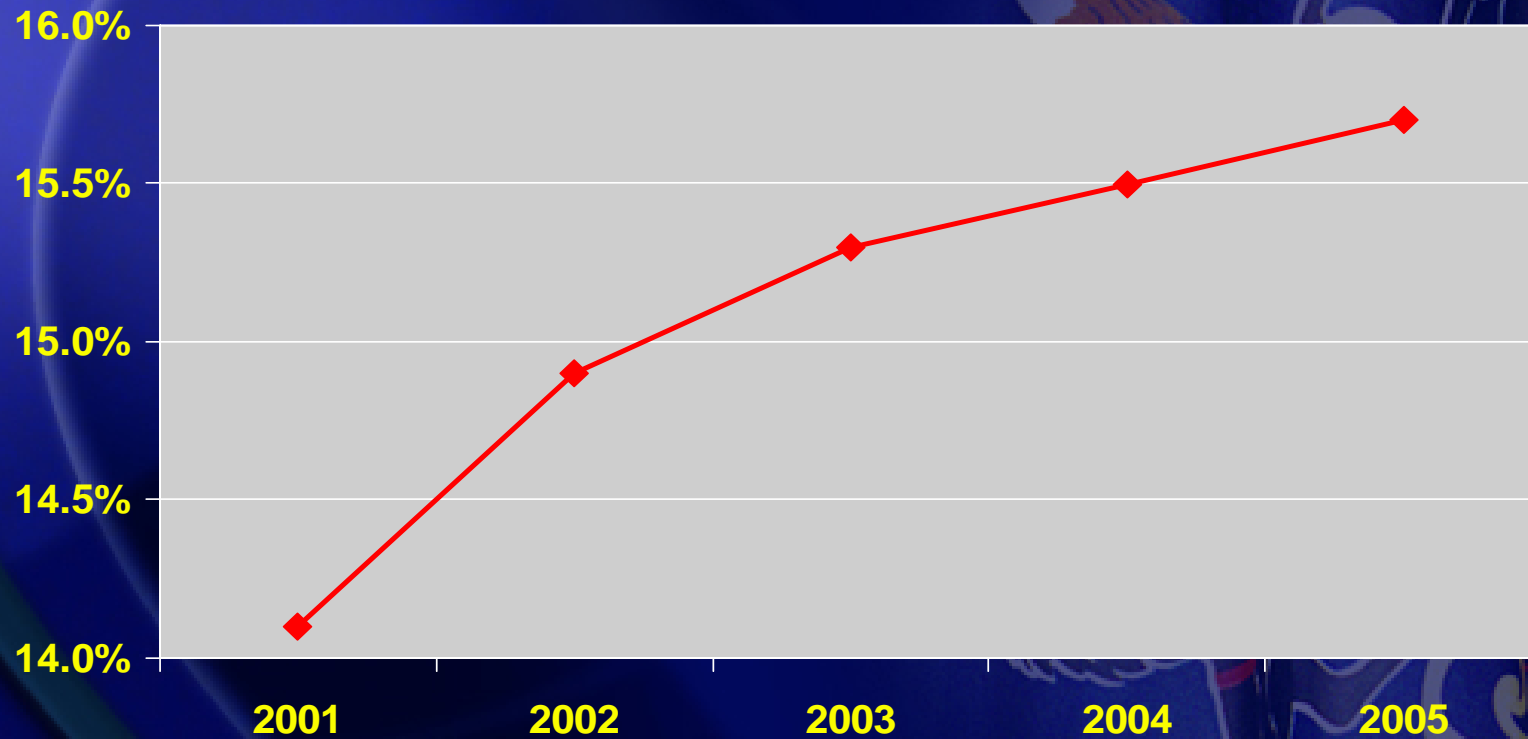
*Source: National Center for Education Statistics*

# National Health Care Trends



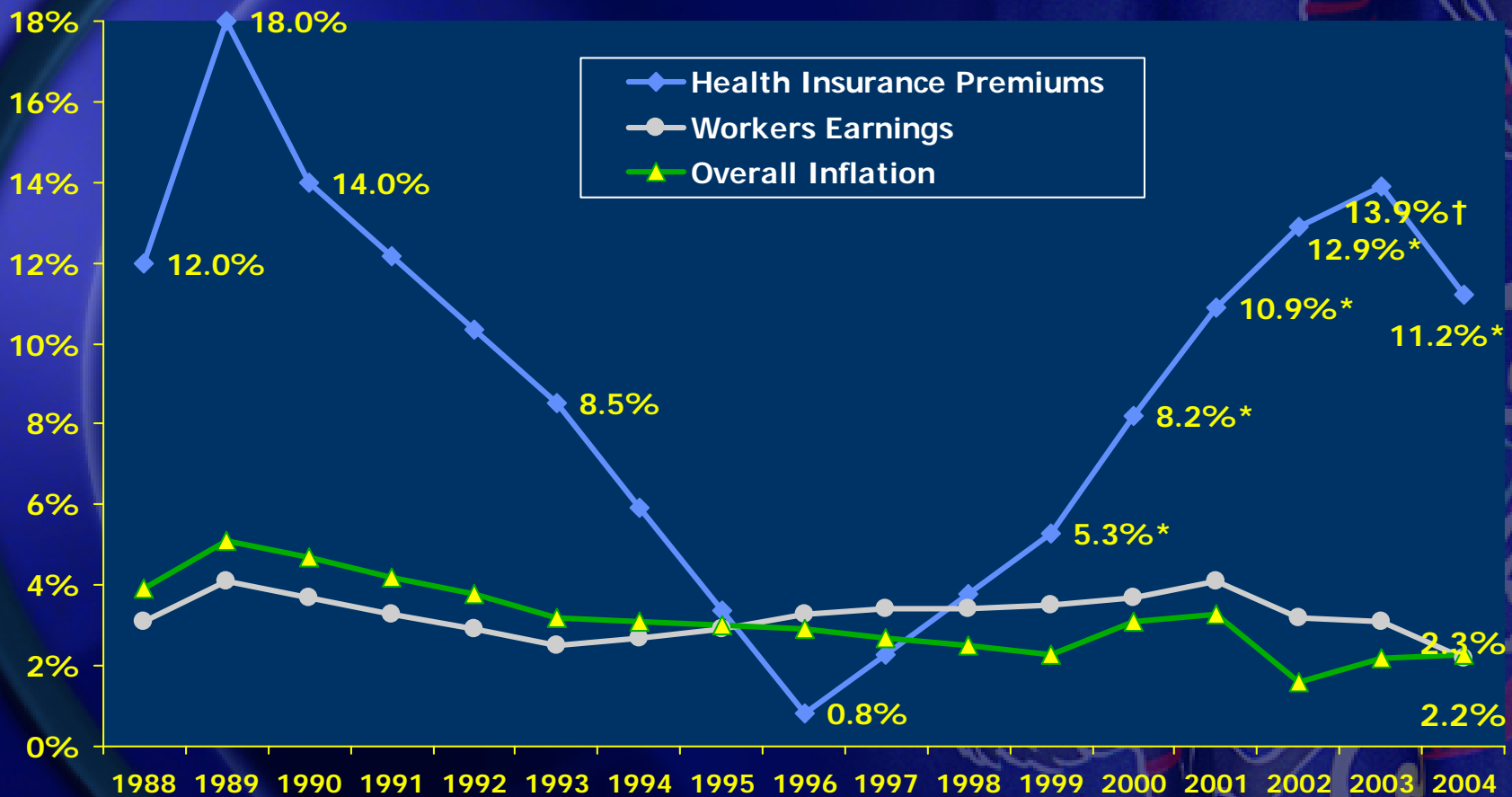
# Nationally, Healthcare Spending Growth Outpaces GDP

National Health Expenditures  
(As Percent of Gross Domestic Product)



Source: Health Affairs –Heffler, et al., 10.1377 2/11/04

# Health Insurance Premiums Are Growing Faster than the Rate of Inflation



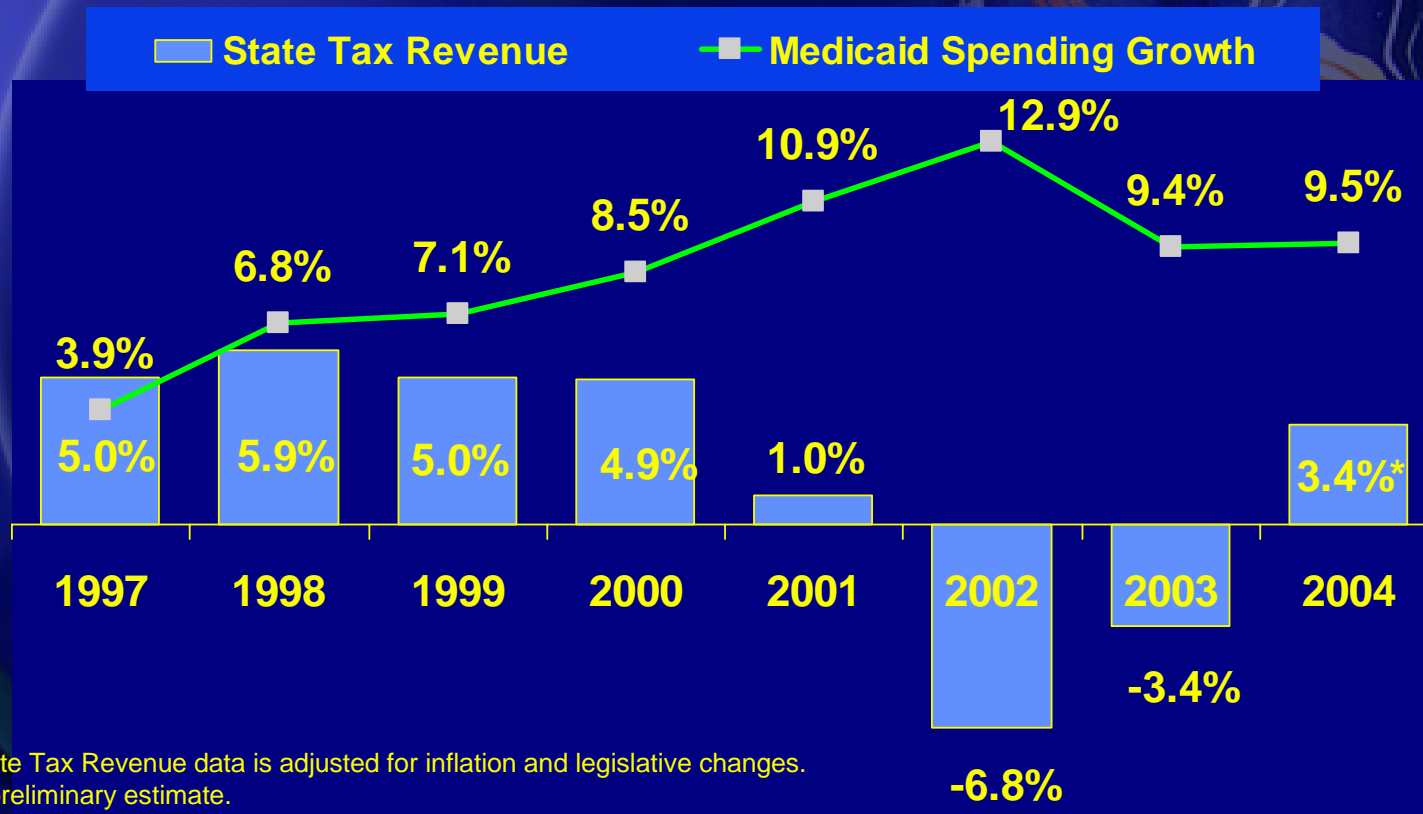
\* Estimate is statistically different from the previous year shown at  $p < 0.05$ .

† Estimate is statistically different from the previous year shown at  $p < 0.1$ .

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four. Source: KFF/HRET Survey of Employer-Sponsored Health Benefits: 1999-2004; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index (U.S. City Average of Annual Inflation (April to April), 1988-2004; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April), 1988-2004.



# Nationally, Medicaid Spending Growth Outpaces State Tax Revenue Growth



NOTE: State Tax Revenue data is adjusted for inflation and legislative changes. 2004 is a preliminary estimate.

SOURCE: Analysis by the Rockefeller Institute of Government of data from the Bureau of the Census, Bureau of Economic Analysis and the National Association of State Budget Officers.

# Why are Medical Assistance Costs Growing?

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## High Cost Needs

Growing Elderly Population  
Growing Uninsured

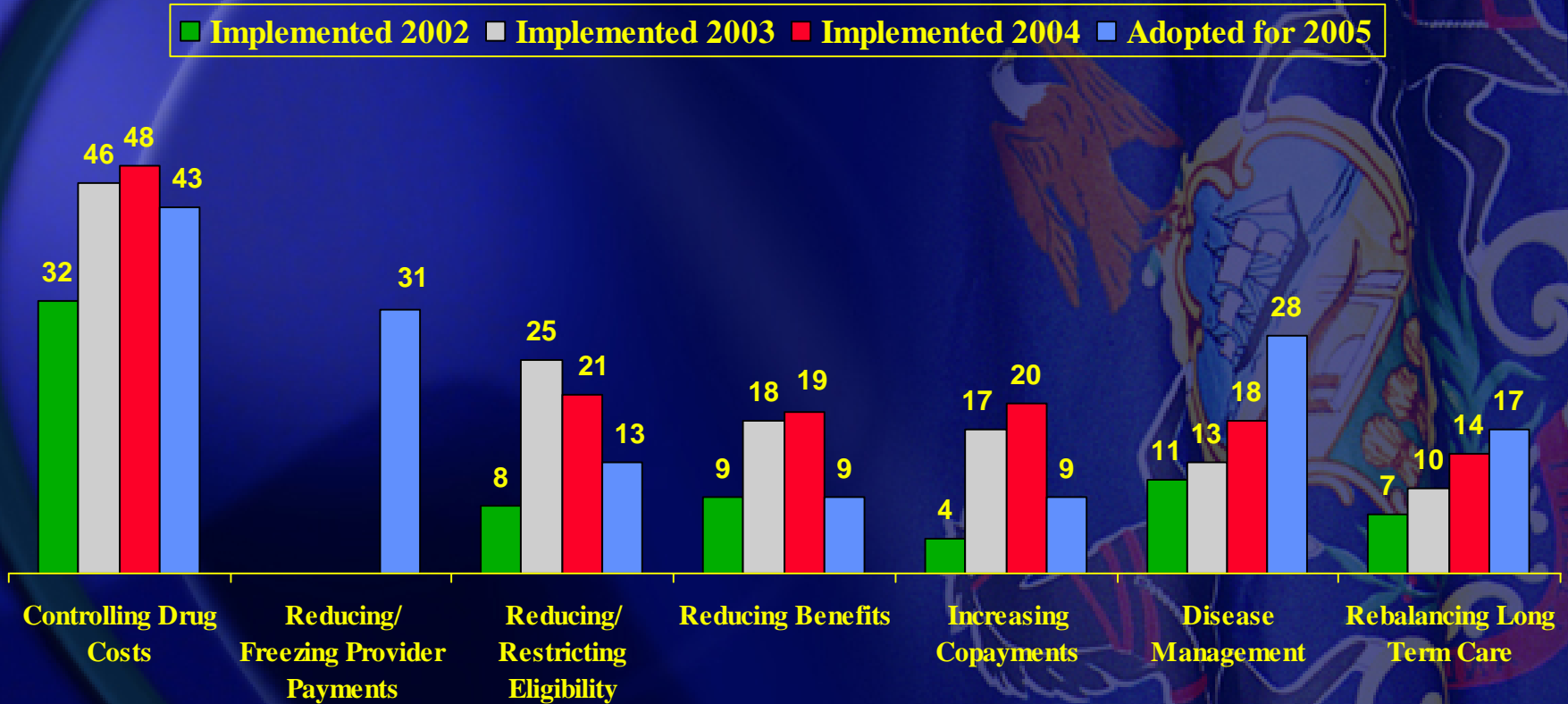
## Health Care Trends – Rising Cost

Patient Acuity  
Service Utilization  
New Technology  
New Drug Treatments

## Loss of Federal Funding

FMAP  
One-Time Funding

# States Undertaking New Medicaid Cost Containment Strategies FY 2002 – FY 2005

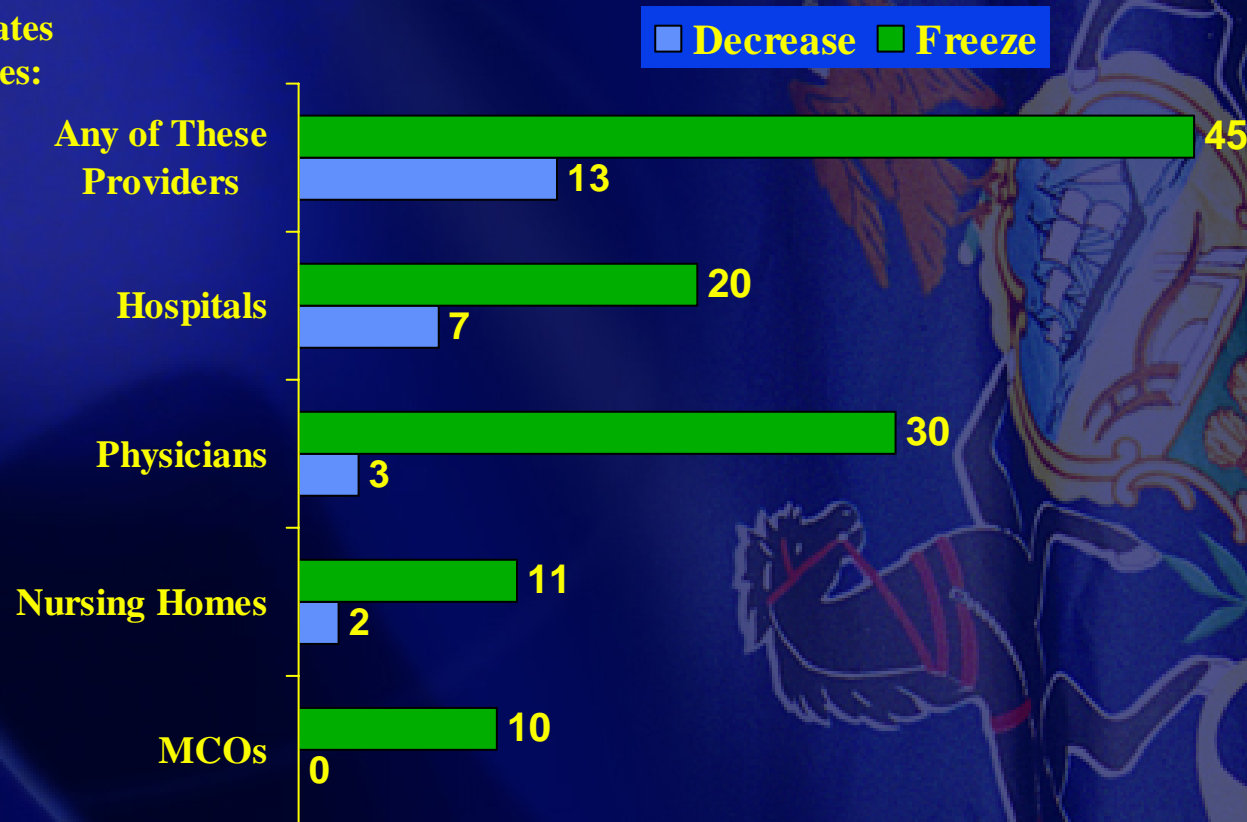


SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September and December 2003 and October 2004. Additional data provided by PA state survey.

Provider payments data is for 3 years 2002, 2003, 2004 only and includes nursing homes, hospital and managed care

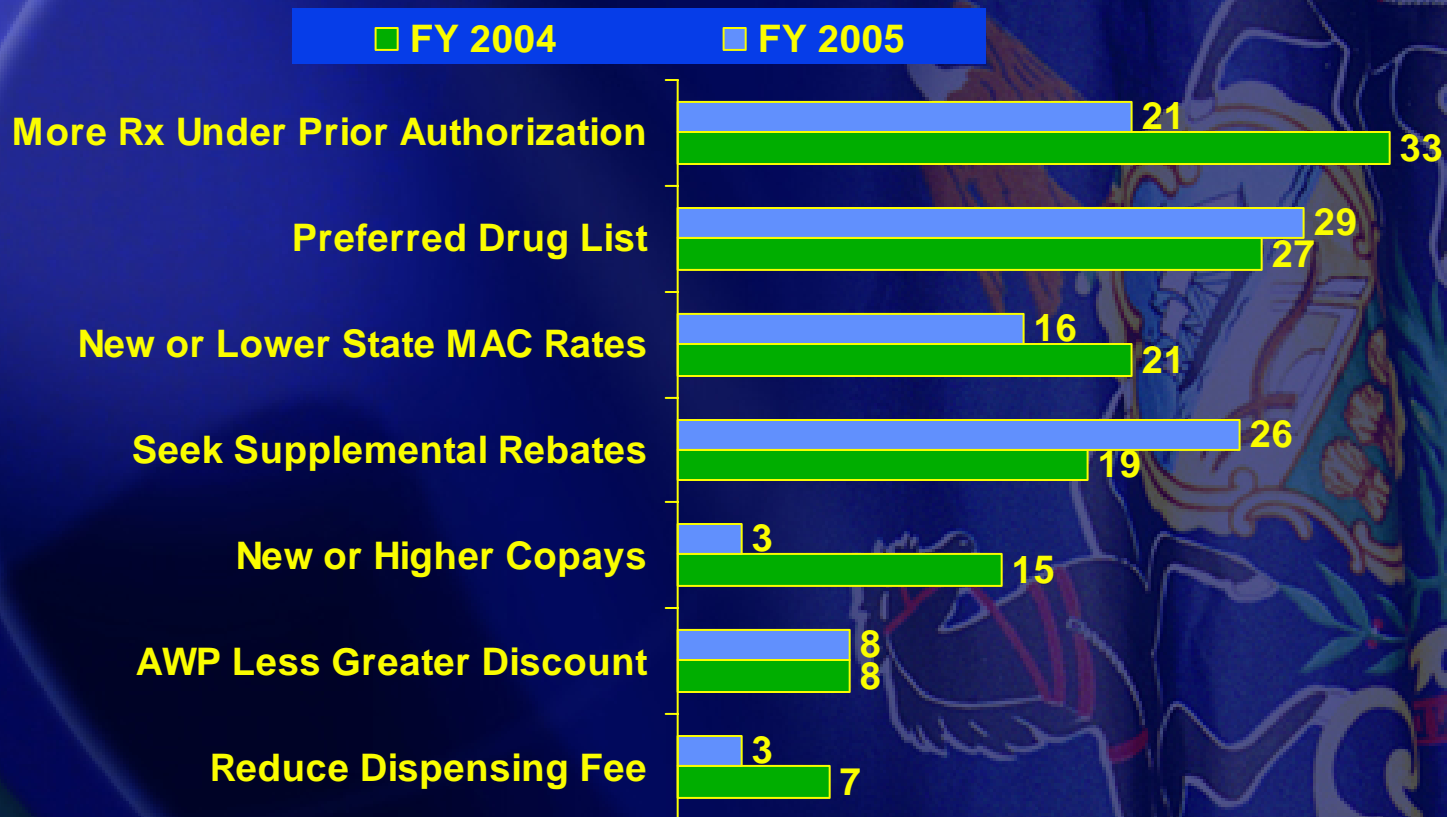
# Most States Plan Changes to Provider Rates in 2005

Number of States Changing Rates:



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, October 2004 and PA state survey conducted by state officials.

# States Pursue Prescription Drug Policy Changes FY 2004 and FY 2005



SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, October 2004.

# Medical Assistance in Pennsylvania



# **Pennsylvania Medical Assistance**

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- **Provides medical care for low-income individuals**
  - **Children, pregnant women, elderly & disabled**
  - **Currently serves over 1.7 million people**
- **Benefit package is comprehensive**
  - **Is more generous than SCHIP or State employees**
- **Provider network includes 68,000 providers**
- **Total annual expenditures exceed \$14.2 Billion**
- **State administered but jointly funded with Federal and State & County funds**

# Medicaid vs. Medicare

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## **Medicaid** — part state/part federal dollars

- Children, pregnant women, elderly & disabled
- Comprehensive benefit package
  - inpatient & outpatient services
  - long term care
  - prescription drugs
  - limited cost sharing

## **Medicare** — 100% federally funded

- Elderly & disabled with work history or ability to buy in
- Covers inpatient & outpatient services &
  - the first 100 days of skilled nursing facility care
  - starting in 2006, prescription drugs
  - includes extensive cost sharing



# PA Growth in Medical Assistance Spending Mirrors National Picture

*PA's Medicaid spending grew at a slower rate than nationally between 2000 and 2003  
--- 6 percent avg. annual growth vs. 11.9 percent nationally*

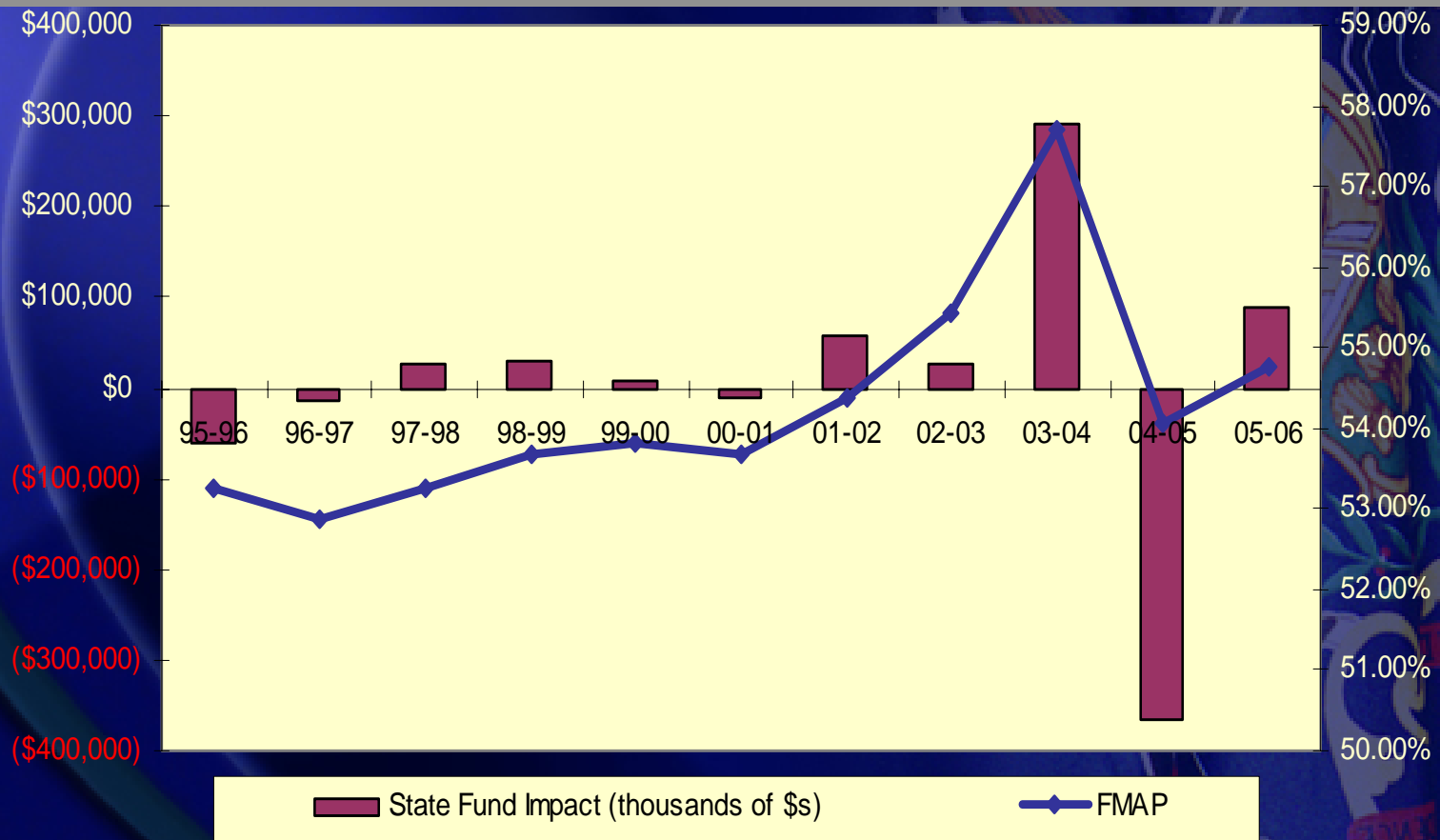
(In Thousands)  
State Funds Only



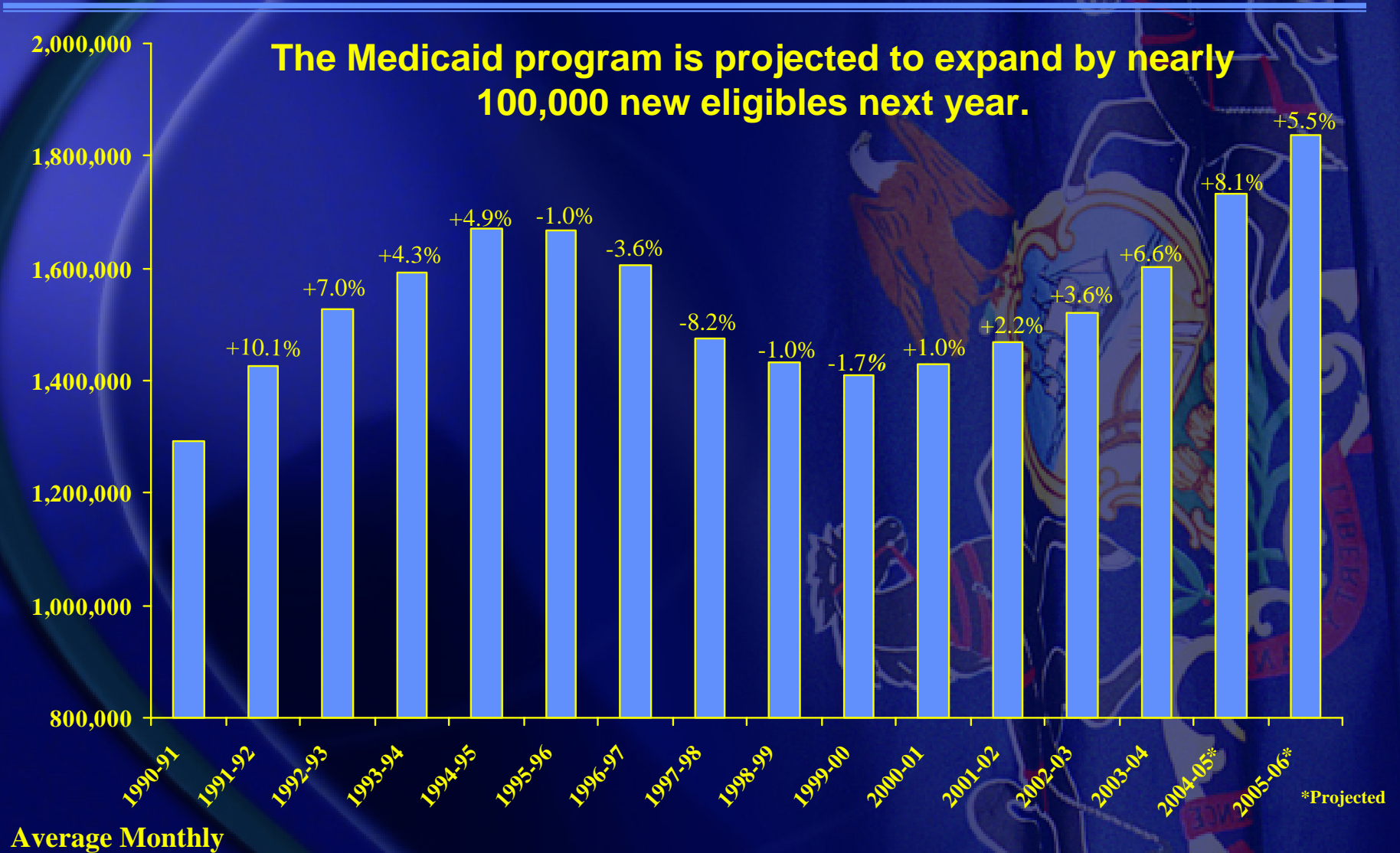
*Source: DPW Budget Office*

# Federal Medical Assistance Percentage

*As Federal Medical Assistance Percentage rates decrease, State fund requirements increase. In FY 2005-06 Pennsylvania's FMAP will increase slightly but still will not return to the level of 2002-03.*

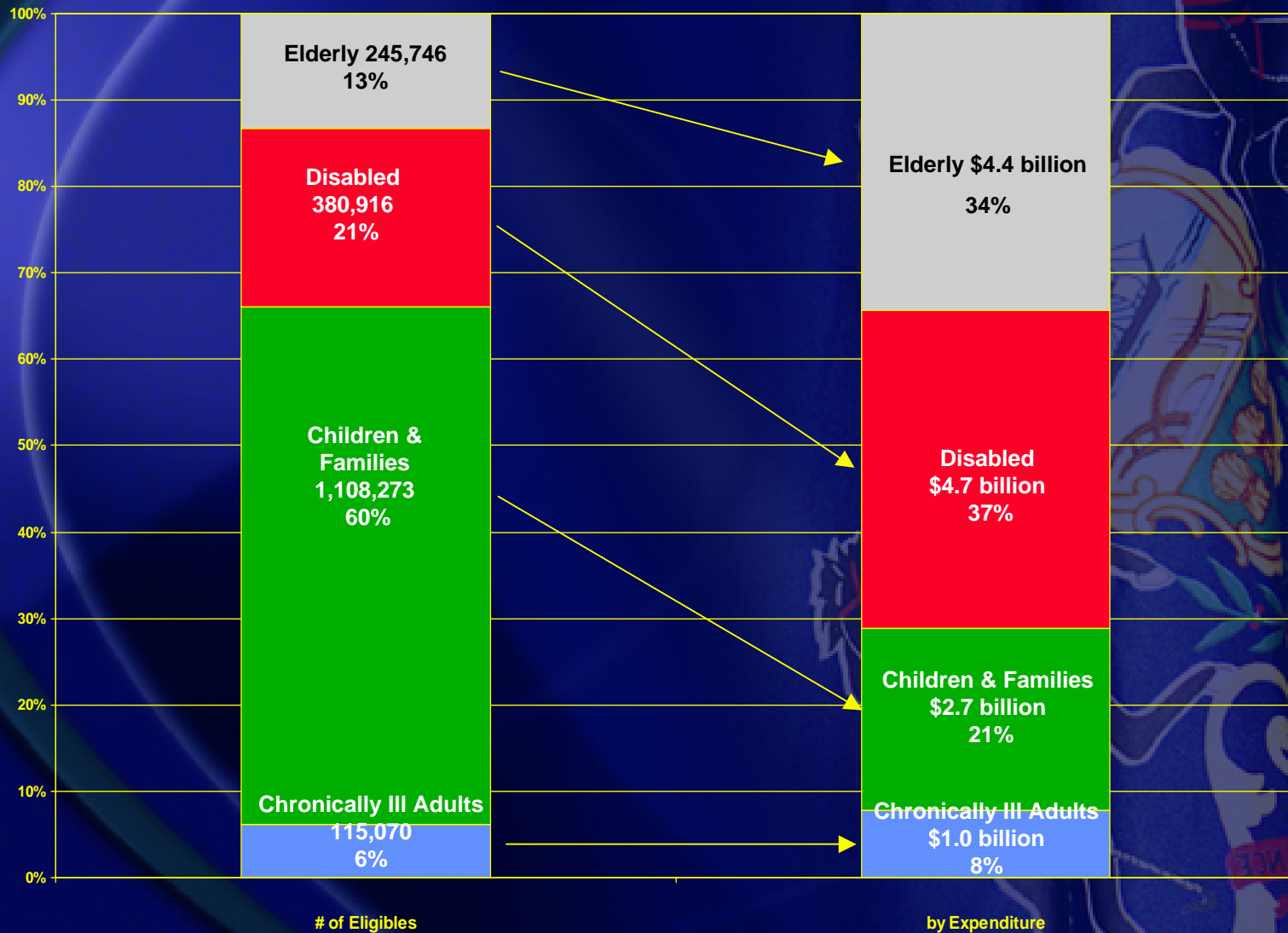


# Caseload Increases Explain Some of the Growth in PA Medical Assistance



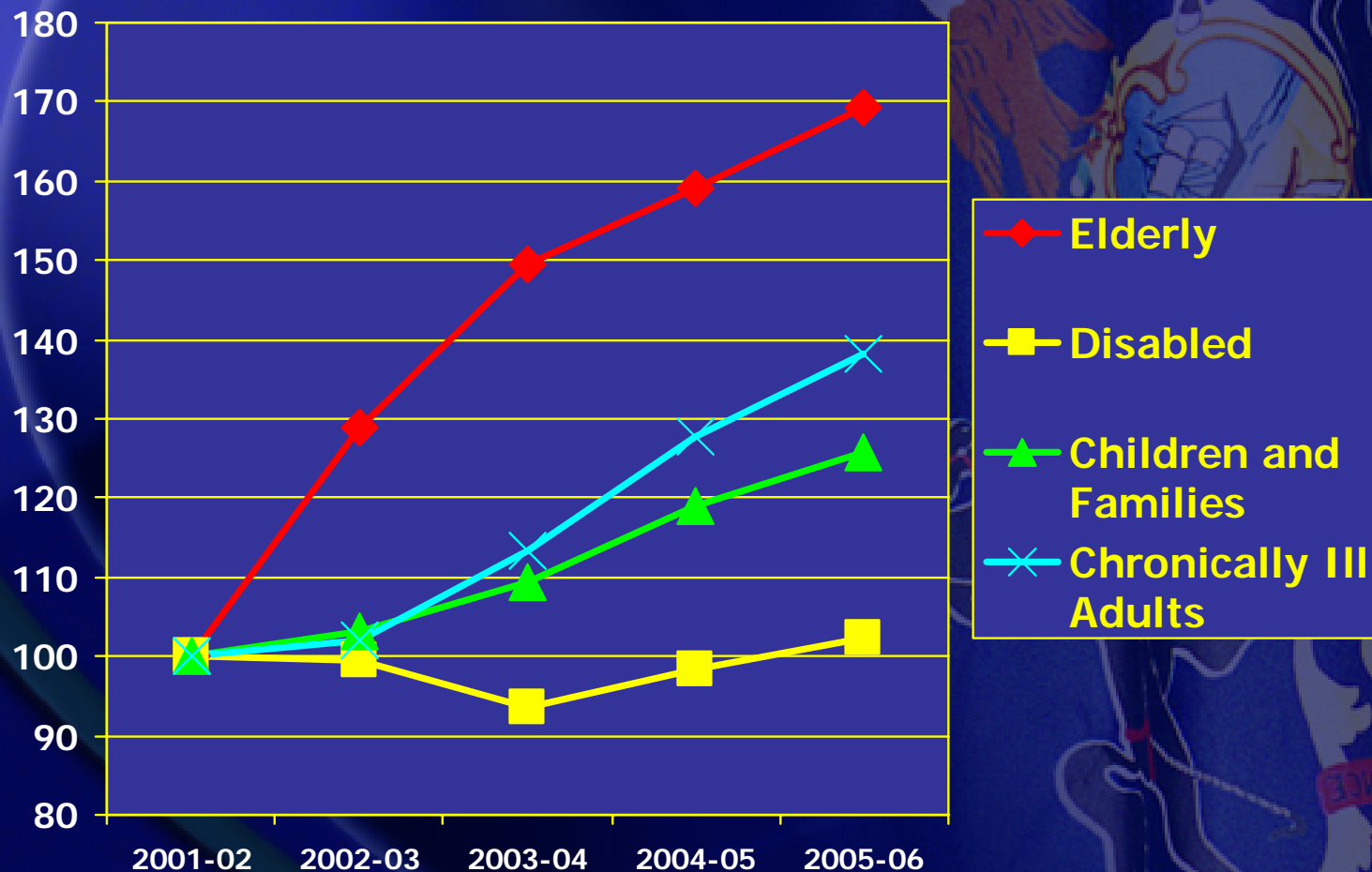
Source: FY 2003-04 Governor's Executive Budget & DPW Budget Office

# Elderly and Disabled Use the Greatest Share of Medicaid Resources



# Seniors Also Represent the Fastest Growing Group in the Medicaid Program

The number of elderly MA recipients has been growing at the fastest rate over the past few years, fueling increases in Medicaid spending.







# Percentage of Working Age People on Medicaid is Rising in U.S. and in PA

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	1987	1990	1995	2000	2001	2002	2003
National	5.5%	6.2%	7.8%	6.4%	6.7%	7.0%	7.3%
Pennsylvania	7.1%	9.6%	12.4%	9.5%	10.5%	10.4%	11.3%

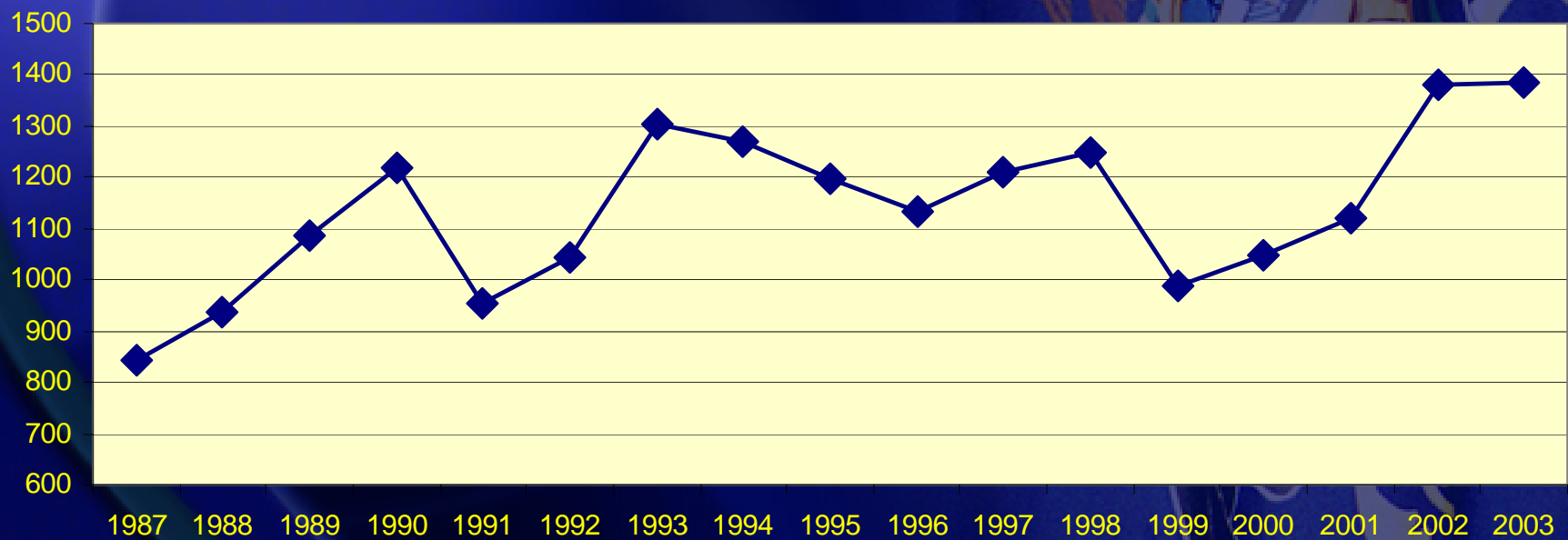
*Source: U.S. Census*



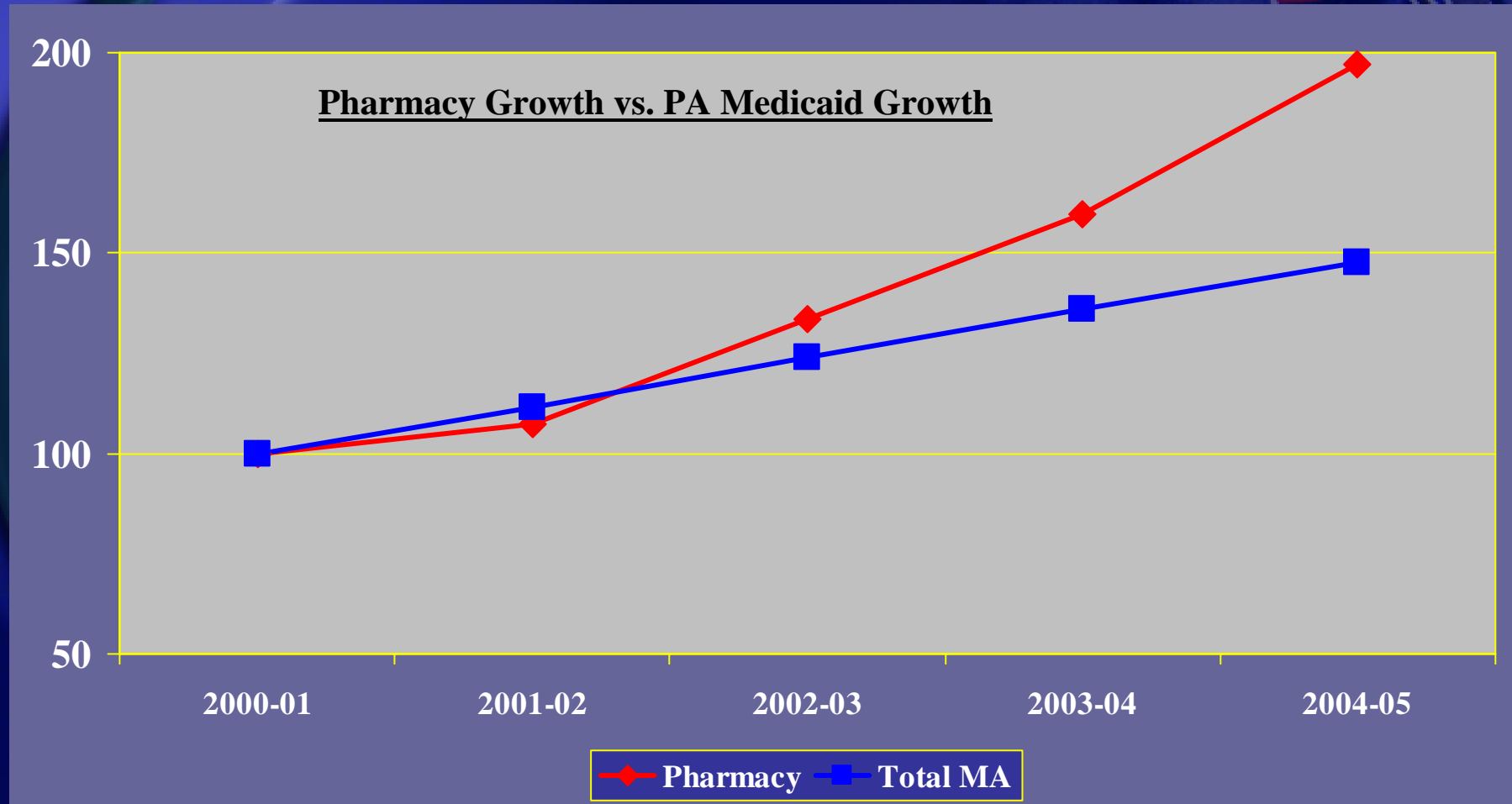
# Uninsured in Pennsylvania

*The number of uninsured Pennsylvanians increased by 265,000 between 2001 and 2003, an increase of nearly 24 percent. In 2003, 11.4 percent of Pennsylvanians, or 1,384,000, did not have insurance coverage.*

## PA UNINSURED in Thousands



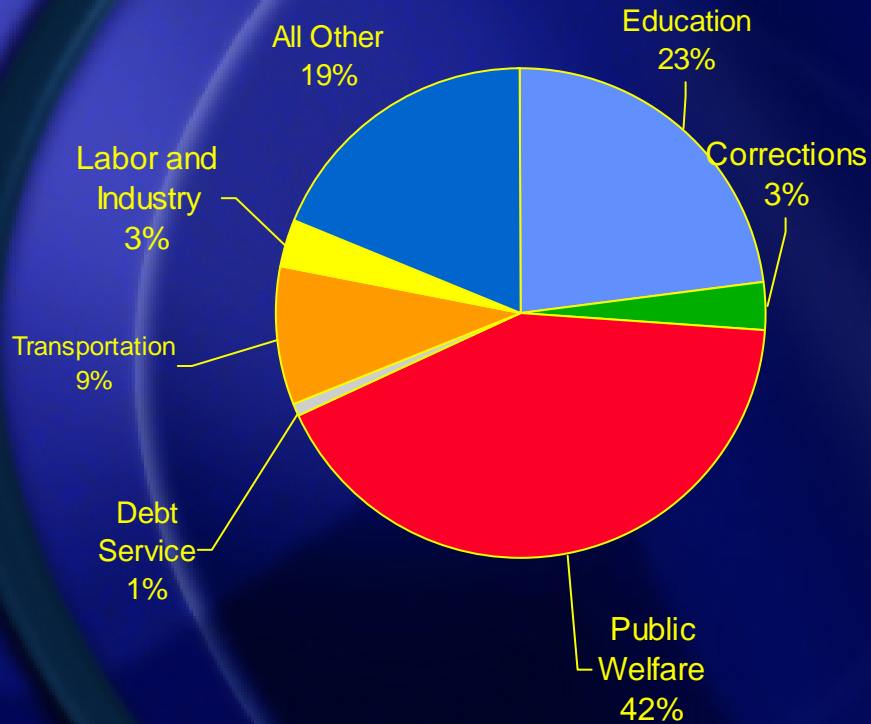
# Pharmacy Costs Are a Key MA Cost Driver



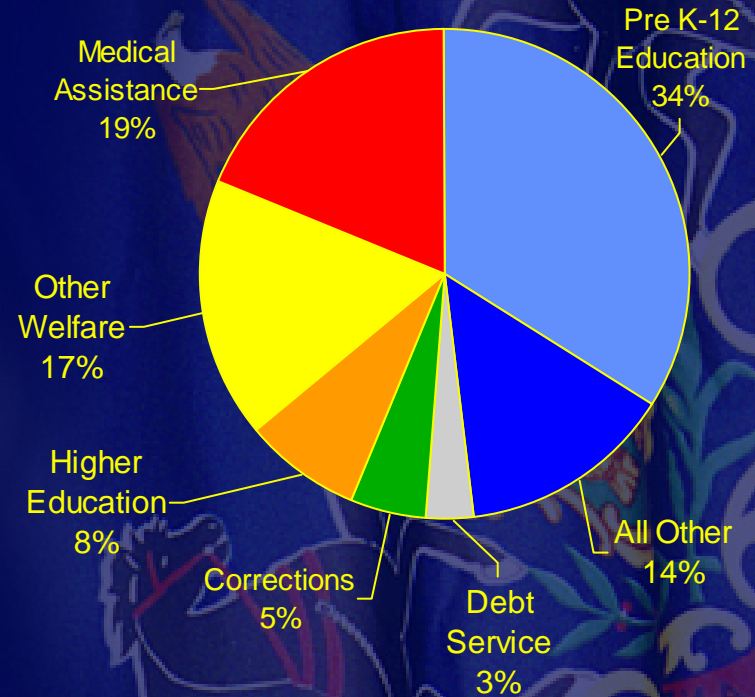
Source: OMAP/ FFS actuals, Managed Care projections

# DPW is a Significant Piece of the State Budget

## Medical Assistance Portion of the 2005-06 Commonwealth Budget



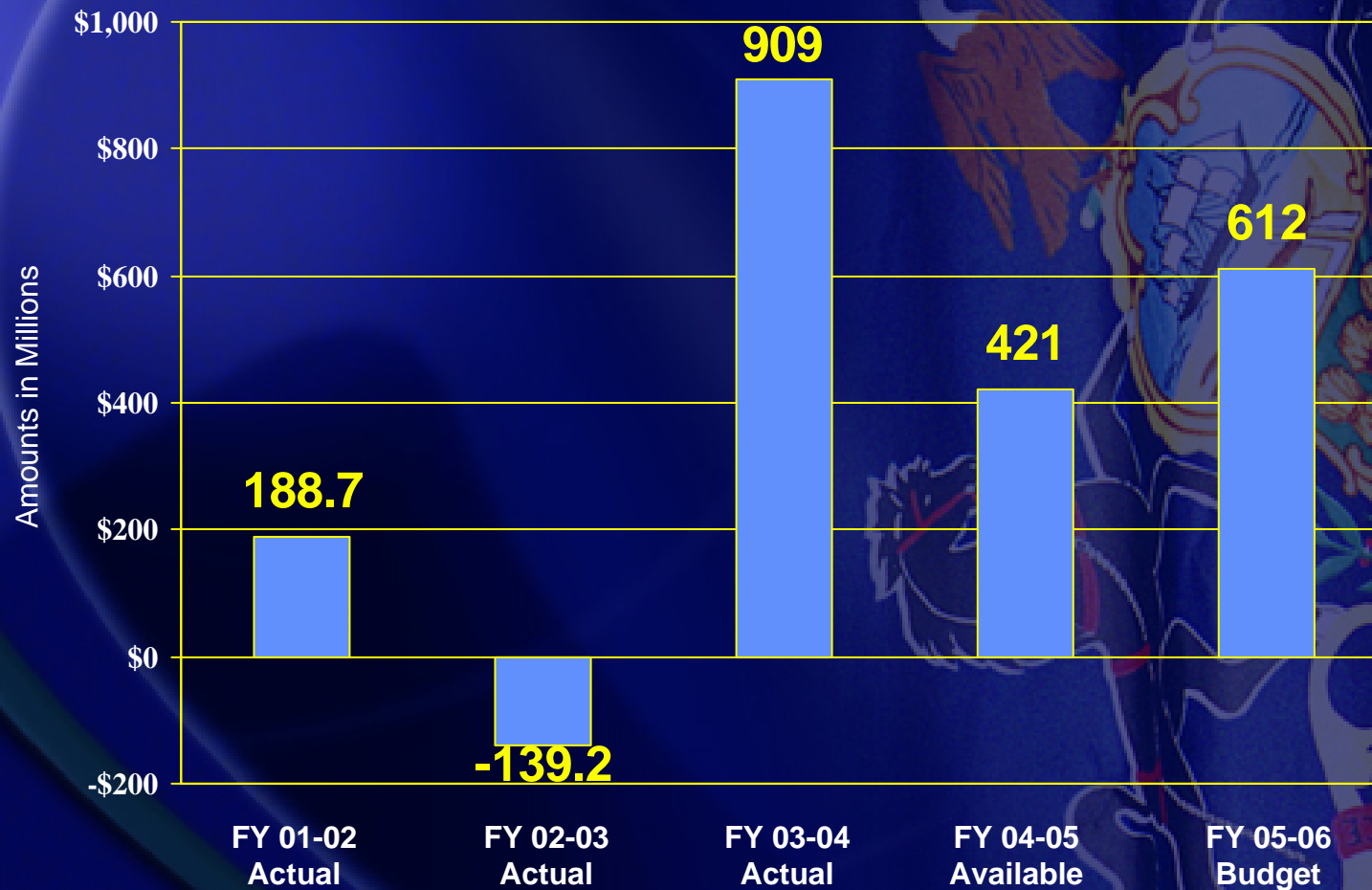
**Total Commonwealth Budget - \$52.5 Billion**



**Total General Fund - \$23.8 Billion**

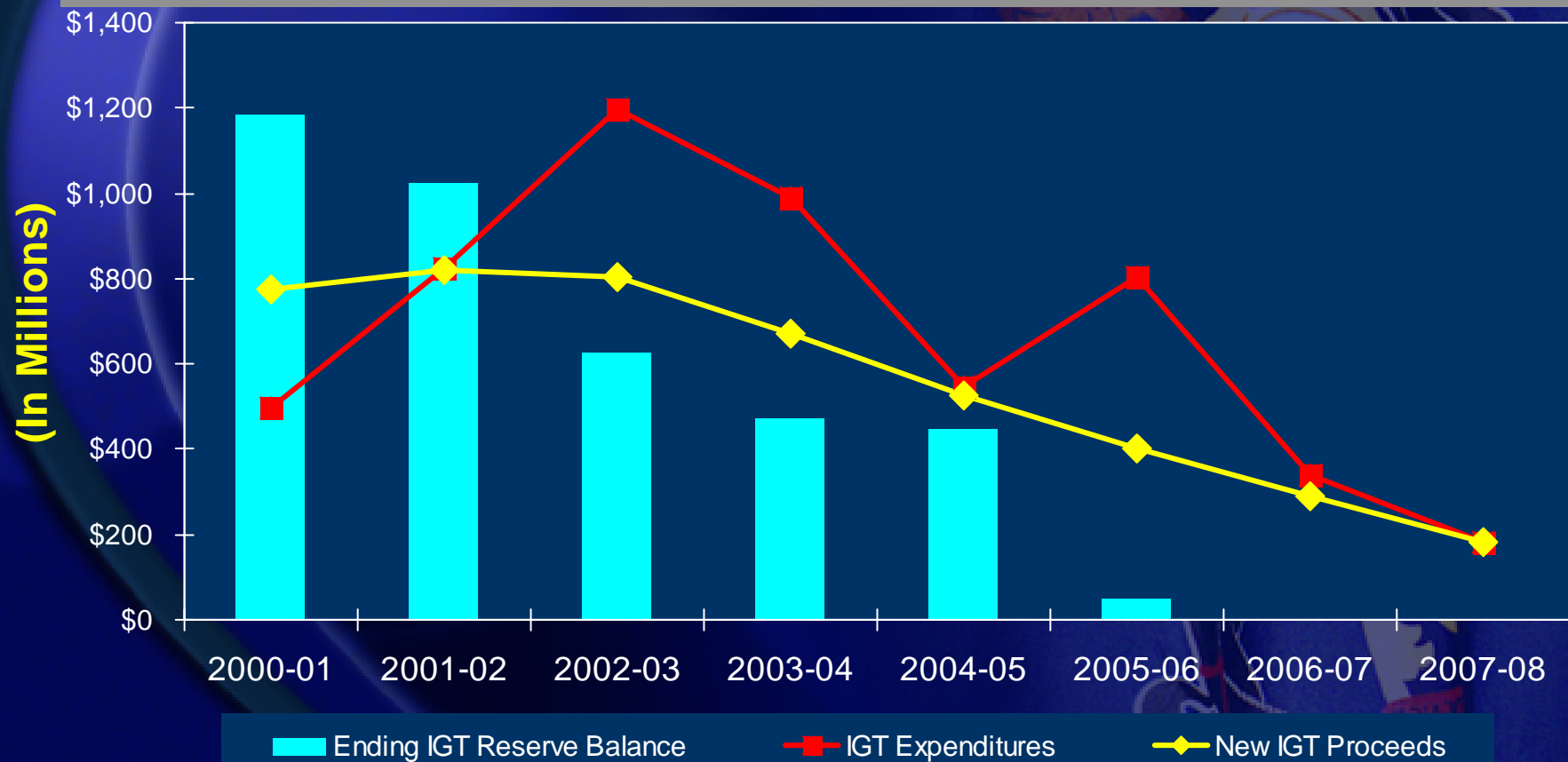
# DPW Has Received Significant Funding Increases Under Governor Rendell

Since FY 2002-03, the Department of Public Welfare has received increases totaling over \$1.9 billion in General Funds.



# Intergovernmental Transfer Funds Are No Longer Keeping Up with Spending Growth

*The Commonwealth's capacity to use Intergovernmental Transfer (IGT) funds to offset General Fund spending requirements will significantly diminish in future years as new IGT proceeds are phased out and the existing IGT reserve balance is depleted.*



# Aggressive Pursuit of Federal Funds

*As the increase in the cost of health care continues to outpace growth in state revenue, Pennsylvania has aggressively pursued all legally-permissible sources of Federal funding for the Medical Assistance Program. Recently-approved assessments will generate an additional \$727 million in FY 2005-06.*

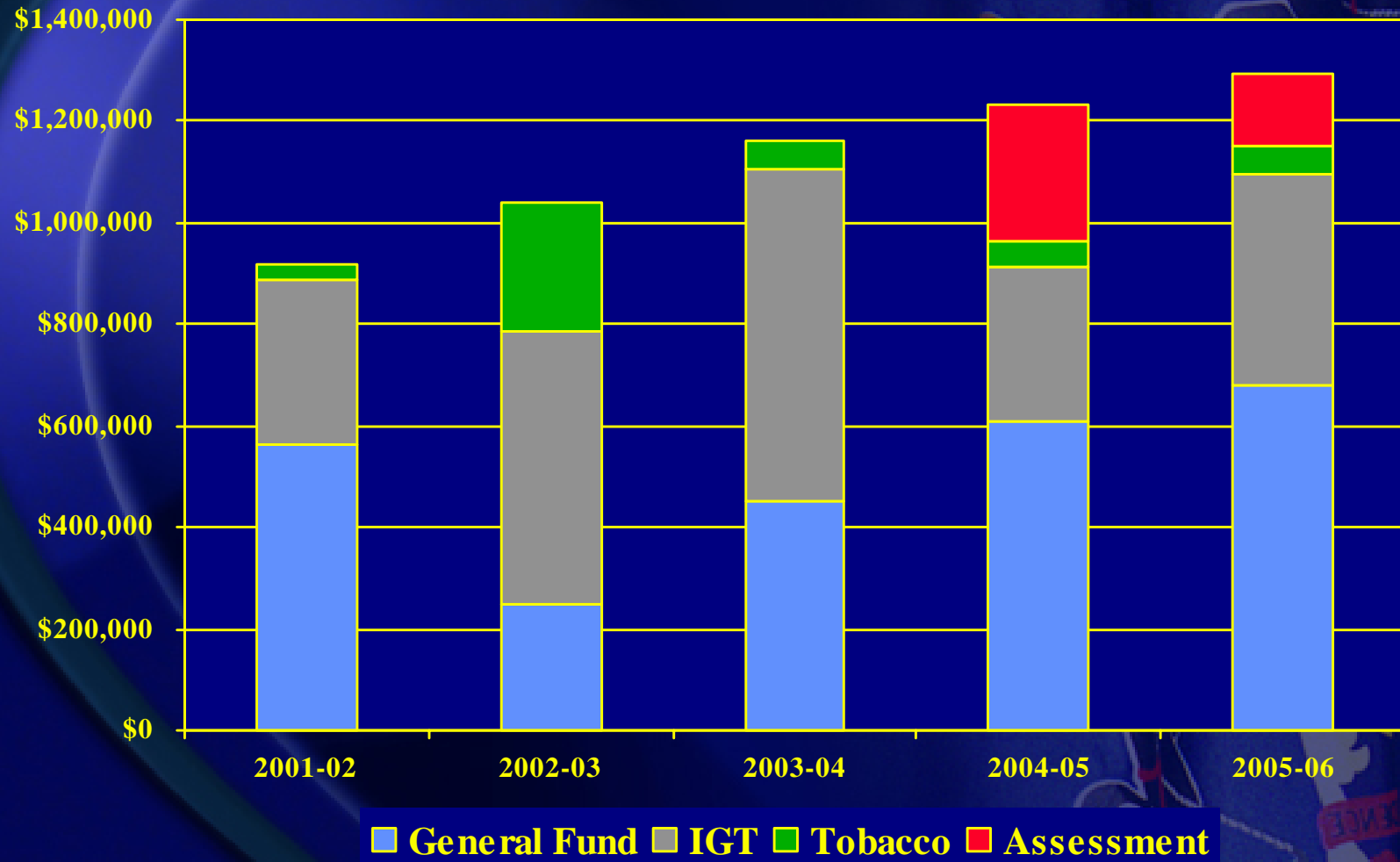
**DPW has established assessments on nursing homes, Intermediate Care Facilities for the Mentally Retarded, and Managed Care Organizations that:**

- **Finance a rate increase, despite the significant budget problems;**
- **Pay for an expansion in community services for mentally retarded citizens;**
- **Increase federal funding for health care services in FY 2005-2006.**

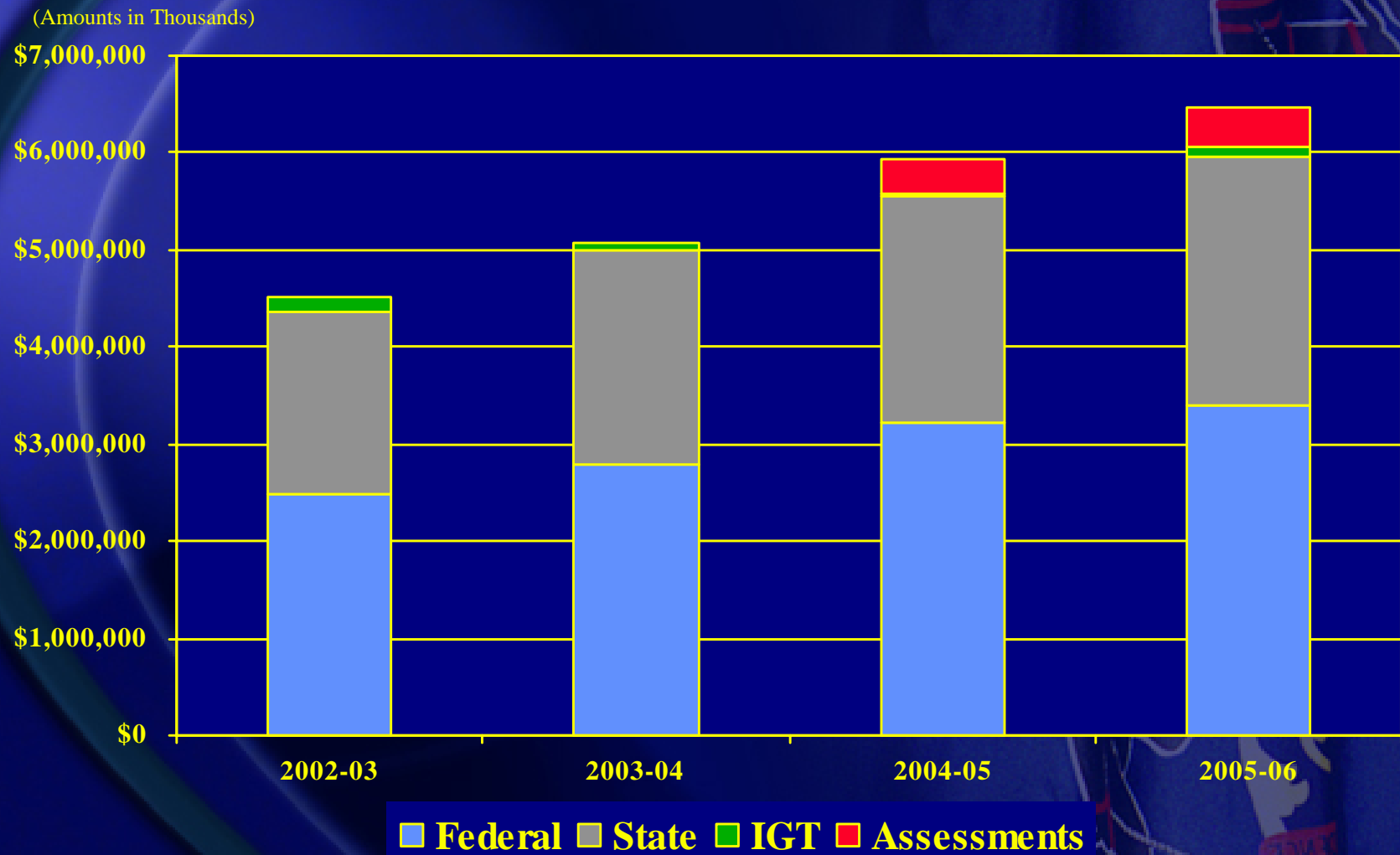
# Assessment Revenues Help, But Can't Solve the Entire MA Budget Problem

(Amounts in Thousands)

*Funding Sources for PA Long Term Care*



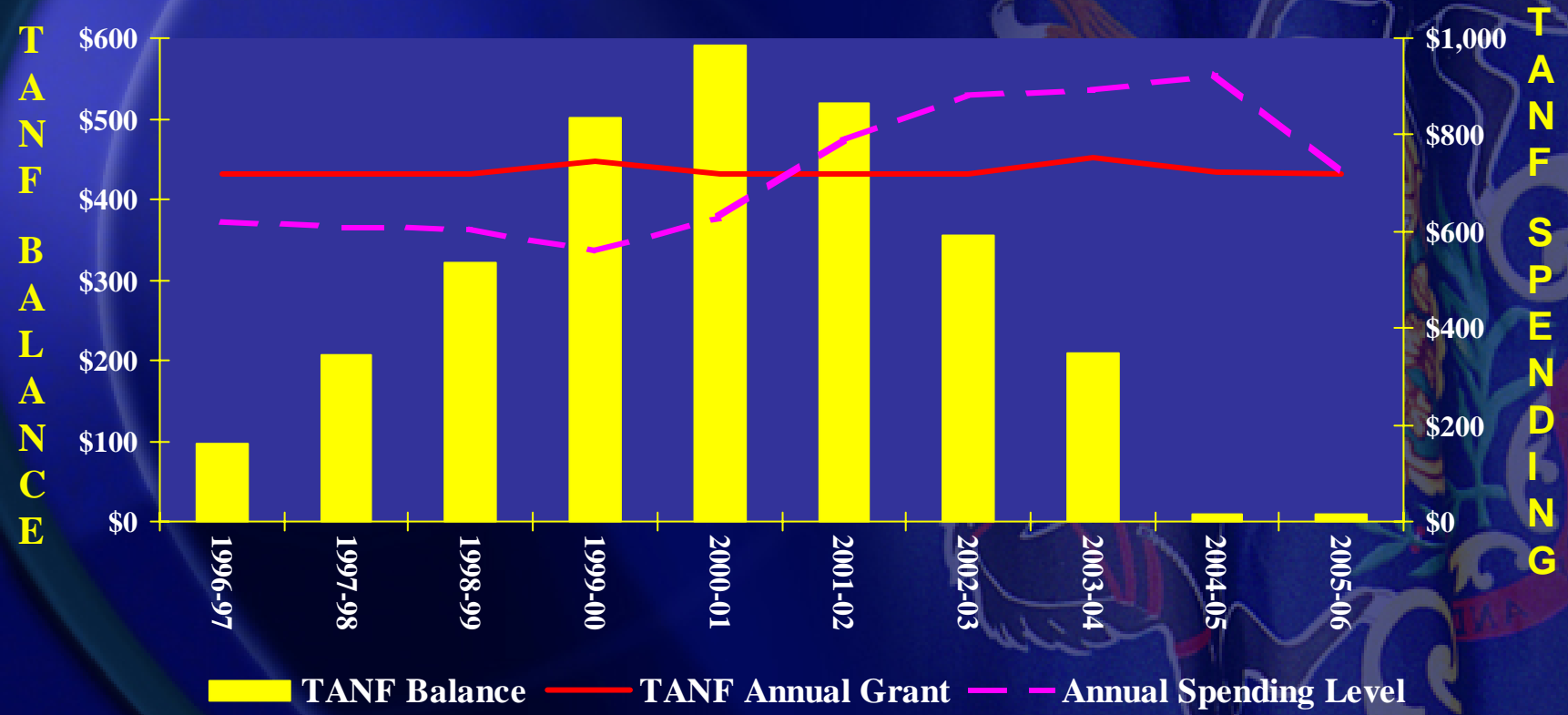
# Medical Assistance Managed Care Funding Growth and Sources of Funding





# TANF Challenges Come to a Head This Year

*Overspending of the TANF surplus depleted the TANF balance and required shifting of TANF dollars to prevent a deficit.*



Source: DPW Budget Office

The background of the slide is a dark blue gradient with a large, faint watermark of the Pennsylvania state seal on the right side. The seal features a central shield with a plow and a sheaf of wheat, flanked by two horses. Above the shield is an eagle with wings spread. A banner at the bottom of the seal contains the word "LIBERTY".

# **Preserving and Reforming Pennsylvania's Social Safety Net**

# Constructing the FY 2005-06 DPW Budget

*The Department of Public Welfare's initial budget proposal for 2005-06 projected that nearly \$1.2 billion in additional State funding would be required to support departmental programs. Through cost avoidance, program redesign, and administrative restructuring, the level of additional State funds required was reduced by \$580 million. The balance of nearly \$612 million in new State funding is recommended as part of the Governor's 2005-06 budget proposal. This represents a 7.8% increase in DPW state funding from the level of 2004-05. Since 2002-03 the Rendell Administration has increased DPW state funding by \$1.9B, a 29.8% increase over three years.*

- **\$611.8 million in increased State funding**
- **\$580.0 million in cost avoidance**
  - **\$204.2 million in cost avoidance by limiting provider payments to moderate levels of increase**
  - **\$197.9 million in cost avoidance by redesigning the Medical Assistance Program**
  - **\$177.9 million in cost avoidance by increasing administrative savings**

**\$1,191.8 million in increased State funding and cost avoidance**

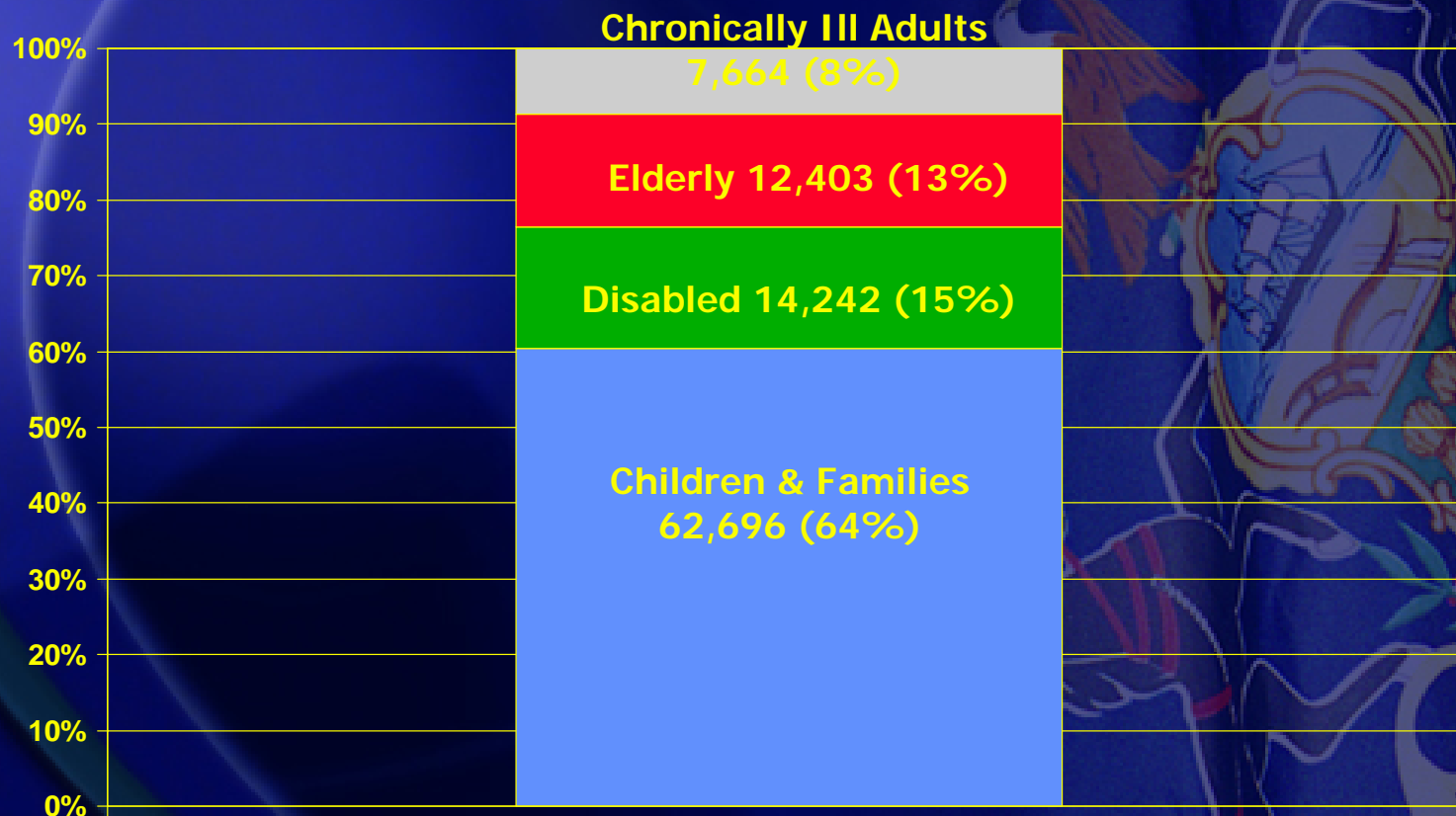
# Preserving and Reforming the Safety Net

## Guiding Principles

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- **No one currently receiving health care services from the Commonwealth will lose their eligibility.**
- **No changes will be made to the array of health services and social services provided to children.**
- **Pennsylvania will be able to meet the increase in demand anticipated this coming year for services to low-income children, chronically ill adults, uninsured working families, disabled individuals, the infirm elderly and other Pennsylvanians in need.**

# The PA Medicaid Program will Serve More Than 97,000 New People During FY 2005-06



**TOTAL: 97,005**

# **The FY 2005-06 Budget will Serve Many New People Across All Services**

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## **New People Served in 2005-2006 (Projections)**

<b>Medical Assistance</b>	<b>97,005</b>
<b>Children in Child Welfare System</b>	<b>3,000</b>
<b>Children in Child Care</b>	<b>1,540</b>
<b>Mental Retardation Programs</b>	<b>2,472</b>
<b>Behavioral Health Community Programs</b>	<b>2,104</b>
<b>Children's Health Insurance Program (CHIP)</b>	<b>10,000</b>
<b>Uninsured Working Pennsylvanians:</b>	
<b>Adult Basic (Tobacco Settlement)</b>	<b>5,427</b>
<b>Community Health Reinvestment</b>	<b>29,000</b>
<b>PACE/PACENET (Elderly Prescription Drugs)</b>	<b>15,200</b>

# New PA Medicaid Plan vs. National Picture: Newly Eligible People

## Pennsylvania

## The National Picture

Pennsylvania is not changing eligibility – all those who currently receive Medicaid healthcare services will receive them in the future.

At least 17 other states have proposed cutting people from the Medicaid program.

Pennsylvania is bundling outpatient services<sup>1</sup> together, giving people the choice and flexibility to use services according to their personal healthcare needs.

Pennsylvania would be one of three states to bundle outpatient services, although nearly half of all states limit the number of visits for some outpatient services.

<sup>1</sup>Physician, outpatient hospital, nurse practitioner, chiropractics, podiatry, optometry, lab, health centers (FQHC), independent med/surgical center

# **New PA Medicaid Plan vs. National Picture: Newly Eligible People**

## **Pennsylvania**

## **The National Picture**

<p><b>Pennsylvania is providing fair rate increases to hospital, managed care organizations, and nursing homes.</b></p>	<p><b>18 states froze or reduced nursing home rates. 22 states froze or reduced payments to hospitals. 14 states froze or reduced payments to managed care organizations.<sup>1</sup></b></p>
<p><b>Pennsylvania will achieve efficiencies by being a more prudent purchaser of drugs by getting the best price available.</b></p>	<p><b>27 states have implemented preferred drug lists (PDL). At least 13 other states have announced plans to develop a PDL.</b></p>
<p><b>Pennsylvania will continue to offer access to a range of outpatient services, including comprehensive dental, podiatry, and chiropractics.</b></p>	<p><b>5 states cover no dental services, while 29 states offer very limited dental services. 26 states do not cover chiropractics. At least 13 states offer no access to podiatry.</b></p>

<sup>1</sup> Since 2002



# Revised Benefit Package for Adults Receiving Medicaid and General Assistance

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## Recipients retain their Full Scope of Benefits

- keep all services
- add some maximum utilization provisions (pregnant women exempt)
- add some co-pays; increase some co-pays
- give consumer flexibility to choose priority services

*DPW exceptions process will be developed to ensure appropriate application of these changes.*

# **New Medical Assistance Benefit Package**

## **General Assistance**

- **Pharmaceutical services not to exceed 3 prescriptions/month**
- **Acute inpatient hospital physical health services not to exceed 1 admission/year**
- **Inpatient medical rehabilitation hospital services not to exceed 1 admission/year**
- **Durable medical equipment up to a maximum of \$5,000 per year**
- **Ambulance services not to exceed one per year**
- **The following group of services subject to a combined maximum of 18 visits per year per recipient (pregnant women exempt)**
  - **Outpatient hospital services**
  - **Physician services**
  - **Certified registered nurse practitioner**
  - **Federally qualified health center services and rural health care centers**
  - **Podiatry**
  - **Chiropractor**
  - **Independent medical/surgical services**
  - **Optometry**
  - **Family planning**

# **New Medical Assistance Benefit Package**

## **Adults in Medical Assistance**

- **Pharmaceutical services not to exceed 6 prescriptions/month (dual eligibles not subject to these changes)**
- **Acute inpatient hospital physical health services not to exceed 2 admissions/year**
- **Inpatient medical rehabilitation hospital services not to exceed 1 admission/year**
- **Durable medical equipment up to a maximum of \$5,000 per year**
- **The following group of services subject to a combined maximum of 18 visits per year per recipient (pregnant women exempt)**
  - **Outpatient hospital services**
  - **Physician services**
  - **Certified registered nurse practitioner**
  - **Federally qualified health center services and rural health care centers**
  - **Podiatry**
  - **Chiropractor**
  - **Independent medical/surgical services**
  - **Optometry**

# **The 2005-06 Budget Implements Cost Sharing for Disabled Children from Higher Income Families**

- **More than 38,000 children are considered “loophole” children in PA.**
- **Loophole children are part of families with incomes ranging from \$40,000 income to over \$1 million.**
- **Pennsylvania now spends nearly \$375 million to finance services for loophole children.**
- **Right now 4,000 of these families have incomes over \$100,000.**
- **This is a program unique to PA.**
- **Proposal would implement a sliding scale premium based on income level, family size, and how many children in the family have disabilities.**
- **All children would continue to receive the same services they currently receive; no eligibility changes will be made.**

# The 2005-06 Budget Funds Fair and Conservative Rate Increases to MA Providers

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## Hospitals

- Budgets revises pass-through payment methodology to tie payments to hospital operating margins
- Includes funding to support a 2 percent rate increase

## Nursing homes

- Updates payment methodology
- Includes funding to support a 2 percent increase

## Managed Care Organizations

- Allows managed care organizations to charge same copays as fee-for-service providers
- Includes funding to support a 2 percent rate increase

# **The 2005-06 Budget Assumes Medicaid Prescription Drug Cost Containment**

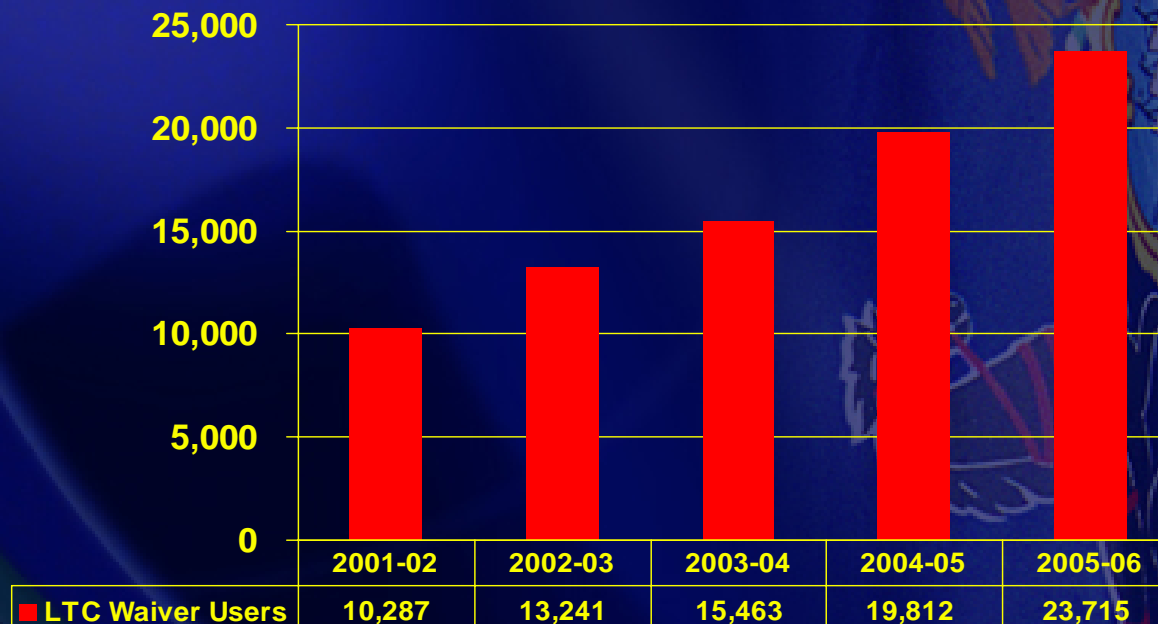
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- **Implements a Preferred Drug List (PDL)**
- **Updates payment to pharmacies for generic drugs**
- **Revises payment methodology for brand name drugs**

# The 2005-06 Budget Funds Continued Growth in Home and Community Based Services

*This budget supports a 20% increase in waiver slots since last year. Waiver slots have grown on average 23% since FY 2001-02.*

## Home and Community Based Waiver Slots filled



**Note: Includes PDA, Attendant Care, OBRA, and Independence Waivers only.**

## **Improving MA Management: Focusing on Fraud and Abuse and Third Party Liability**

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**DPW has also directed its TPL recovery contractor to implement several new initiatives:**

- **Conduct audits to identify duplicate payments made by MA and third party coverage to LTC facilities**
- **Perform expanded data exchanges with pharmacy benefit managers to identify and recover third party liability related to drug claims**
- **Conduct audits to identify charges that should have been “bundled” in one claim, but were billed separately to obtain higher reimbursements**



## **Improving MA Management: Focusing on Fraud and Abuse**

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- **DPW's Bureau of Program Integrity (BPI) is responsible for protecting the MA Program from provider fraud, abuse and waste**
- **BPI proposes to procure the services of a specialized vendor to augment its existing provider review activities**
- **Specialized software will flag suspicious claims submitted by hospitals and other provider types**
- **The vendor will request and review medical records related to the "flagged" claims, and recover identified overpayments**
- **BPI has also enlisted the assistance of the Office of Inspector General to provide resources to conduct additional audits of pharmacies and durable medical equipment suppliers**

## **Child Welfare Needs-Based Budget 2005-06**

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- **For FY 2005-06, the budget recommends an increase of \$206 million in State funds for a total of \$838.5 million for County Child Welfare. An additional \$45 million is provided for Child Welfare TANF Transition.**
- **Child Welfare NBB was built from actual prior year expenditures plus a cost of living adjustment and a small increase for expanded services.**
- **Expenditures included increases in mandatory child welfare services and prevention programs and reflect a shift of certain expenditures to Medicaid.**
- **Growth in services and supports to children funded through child welfare and MA Realignment increased by 12.3% over FY 2003-04 actual costs and 5.1% over FY2004-05 OCYF projected costs.**

## **The 2005-06 Budget Replaces TANF Funds in the Child Welfare System to Solve the TANF Deficit**

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- **Budget assumes \$225M in TANF funds would be shifted from child welfare budget – leaving a balance of \$68 million in child welfare programs.**
- **These TANF dollars are replaced through a combination of the Child Welfare TANF Transition appropriation, additional Act 148 funding and the associated local share, as specified by Act 30.**
- **Counties will continue to be permitted to use the remaining TANF funds to support detention services until December 31, 2005.**
- **The Child Welfare TANF Transition appropriation, which does not have a matching component, was created to lessen the effect on counties from moving from a 100% funding stream (TANF) to a matching funding stream (Act 148).**

The background of the slide is a dark blue gradient. On the right side, there is a large, semi-transparent watermark of the Pennsylvania state seal. The seal features a central shield with a plow and a sheaf of wheat, flanked by two horses. Above the shield is an eagle with wings spread. A banner at the bottom of the shield contains the word 'LIBERTY'.

**Additional Investments in Child Care  
and Health Care for Pennsylvanians**

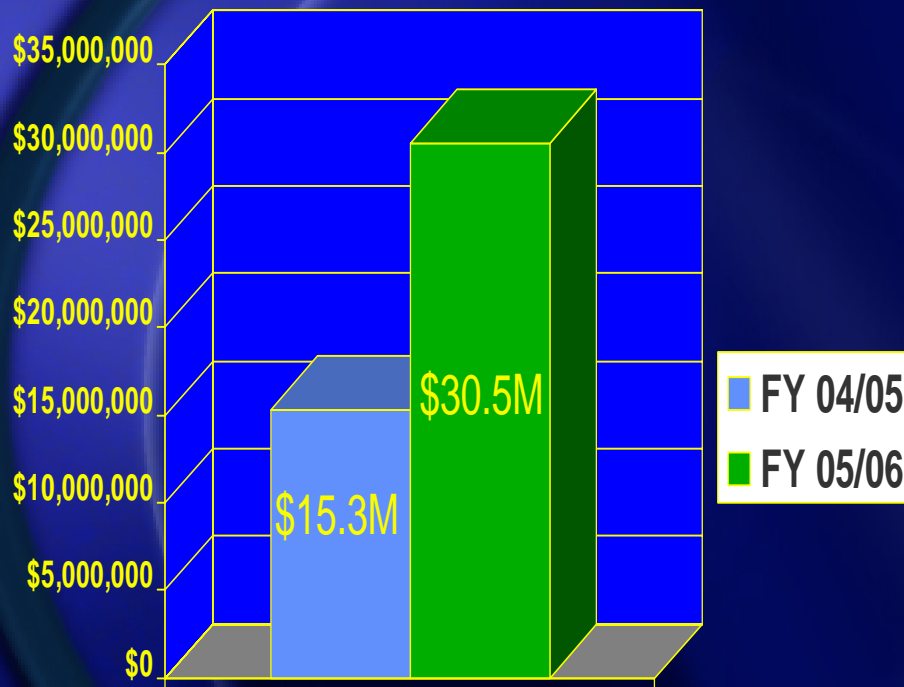
# Quality Child Care Continues to Be An Administration Priority in the 2005-06 Budget

*Administration's early childhood education and care strategy spans programs at DPW and the Department of Education through newly created Office of Child Development.*

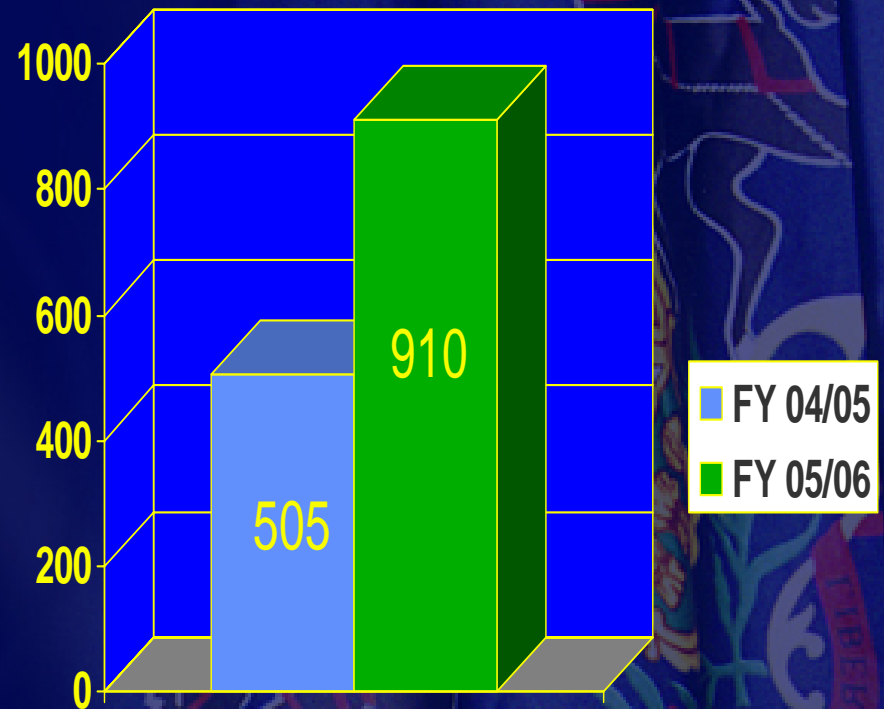
## DPW Budget FY 2005-06 invests:

- **\$292 million of continuing resources to assure ongoing services for low income families accessing subsidy, and to support early learning through Keystone Stars and TEACH.**
- **\$12.5 million of new resources to enroll 1,540 additional children in the subsidized child care program and to improve payment levels for young children .**
- **\$4.0 million of new State resources to enroll an additional 1,217 children in the Early Intervention program.**

# The 2005-06 Budget Continues to Address the Mental Retardation Waiting List



Waiting List Initiative  
Dollars



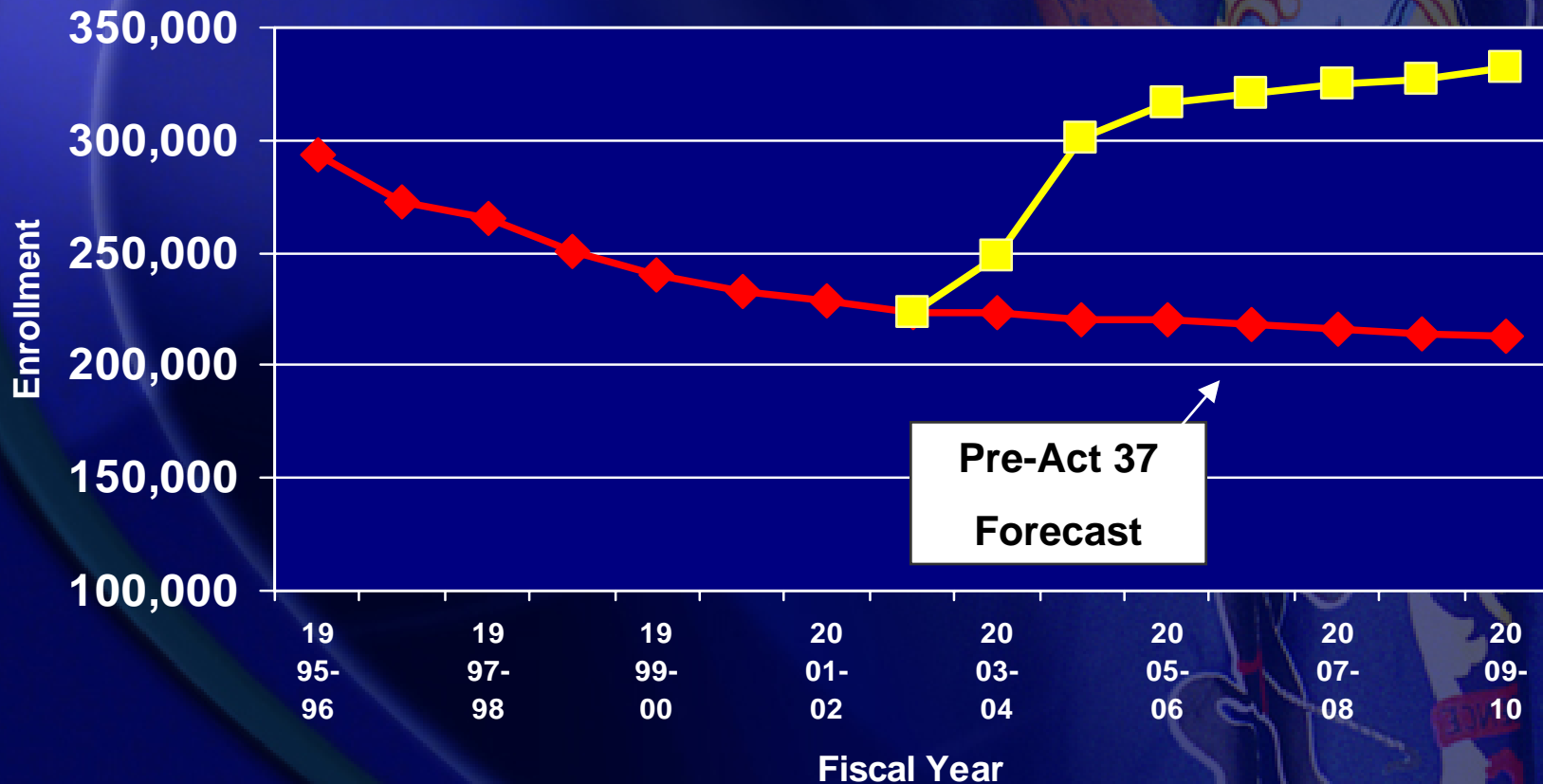
People Served from the  
Emergency Waiting List

Current emergency waiting list =  
2,182 people

FY 05/06 initiative =  
42% reduction to the current  
waiting list.

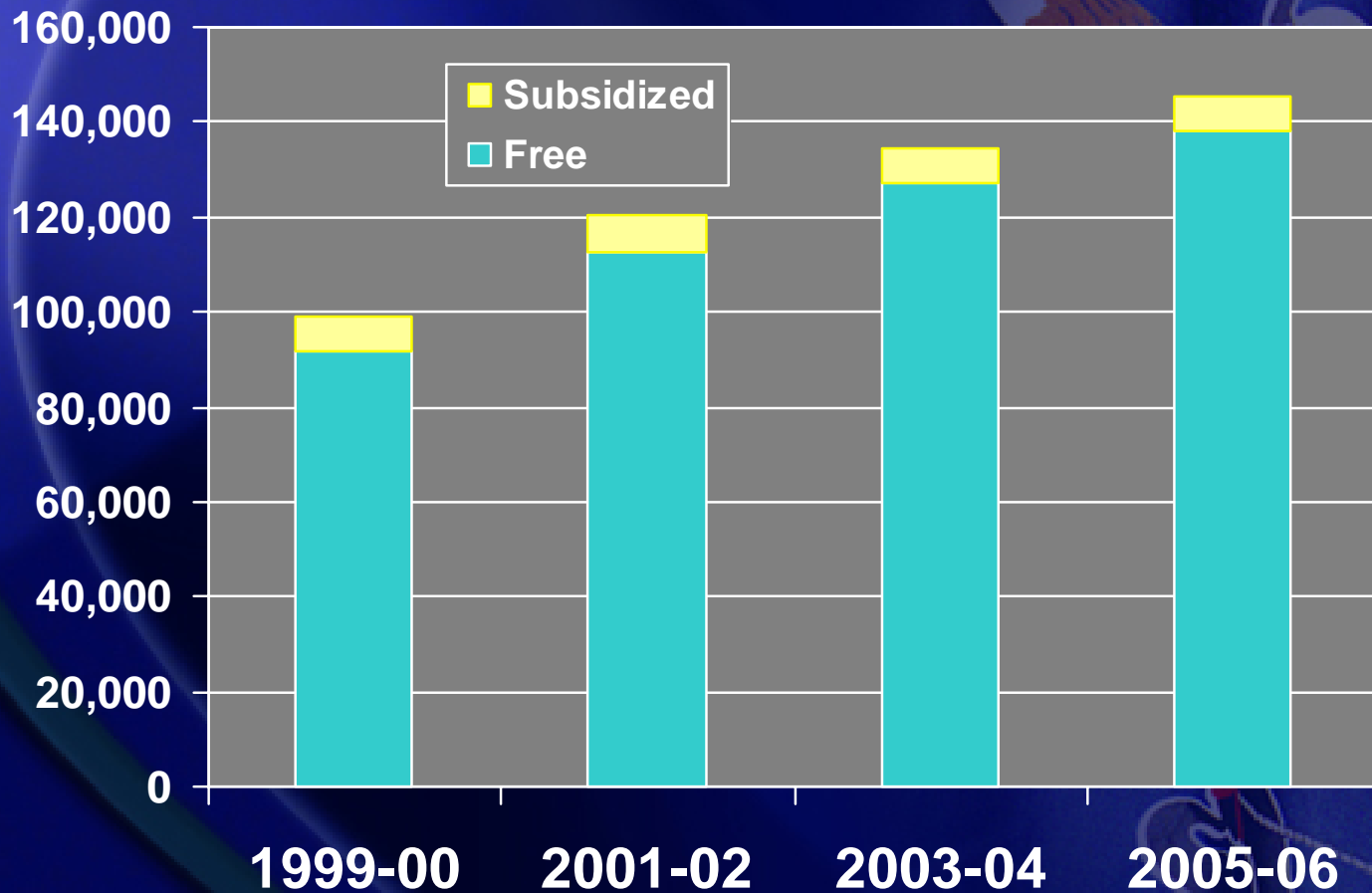
# PACE / PACENET Enrollment

*Act 37 of 2003 increased income eligibility limits while implementing cost-saving initiatives in the PACE/PACENET Program. The 2005-06 budget anticipates that combined PACE/PACENET enrollment will grow next year by 15,200 – a 5% increase.*



# Children's Health Insurance Program

*Pennsylvania's Children's Health Insurance Program has been a national leader in ensuring that free or subsidized health care is available for children of low income families. It is estimated that over 145,000 children will be served in 2005-06, an increase of 7.4 percent from 2004-05.*





# Community Health Reinvestment

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- **Landmark agreement between PA's four Blue Cross/Blue Shield plans and the Commonwealth.**
- **Blue Plans agree to ongoing annual commitment of funds for community health reinvestment:**
  - **60 percent of the funds will be used to provide health insurance through state-approved programs for both low-income and uninsured persons.**
  - **40 percent of the funds will be allocated by the Blue Plans to other community health reinvestment projects, as defined in the agreement.**
- **Blue Plans commit to nearly \$1 billion over life of agreement.**
- **During the first year, more than \$85 million will be used to provide basic health care coverage for 29,000 additional uninsured individuals based on current program design.**

# Updating the Health Investment Plan

## Ensuring Continued and Expanded Coverage for Uninsured Adults and Older Pennsylvanians

*This budget proposes rebalancing the allocation of the Tobacco Settlement revenue to fulfill its two primary objectives of providing health care to uninsured adults and home and community-based services to older Pennsylvanians. Without this rebalancing, the number of individuals served will decrease due to decreasing tobacco revenues and increasing health care costs.*

- **\$127.8 million for health insurance to provide full-year coverage for 41,500 individuals, an increase of 15 percent served compared to 2004-05.**
- **\$51.9 million for expanded home and community-based waivers to provide full-year services to 5,800 older Pennsylvanians, an increase of 24 percent from 2004-05.**
- **\$20 million for medical assistance for 5,700 workers with disabilities on a full-year basis, an increase of 54 percent from 2004-05.**

# Proposed Tobacco Settlement Allocations

*Due to decreasing tobacco payments and increasing direct service costs, the Tobacco Settlement Fund percentage allocations need to be revised in order to ensure continued and expanded coverage for uninsured adults and older Pennsylvanians.*

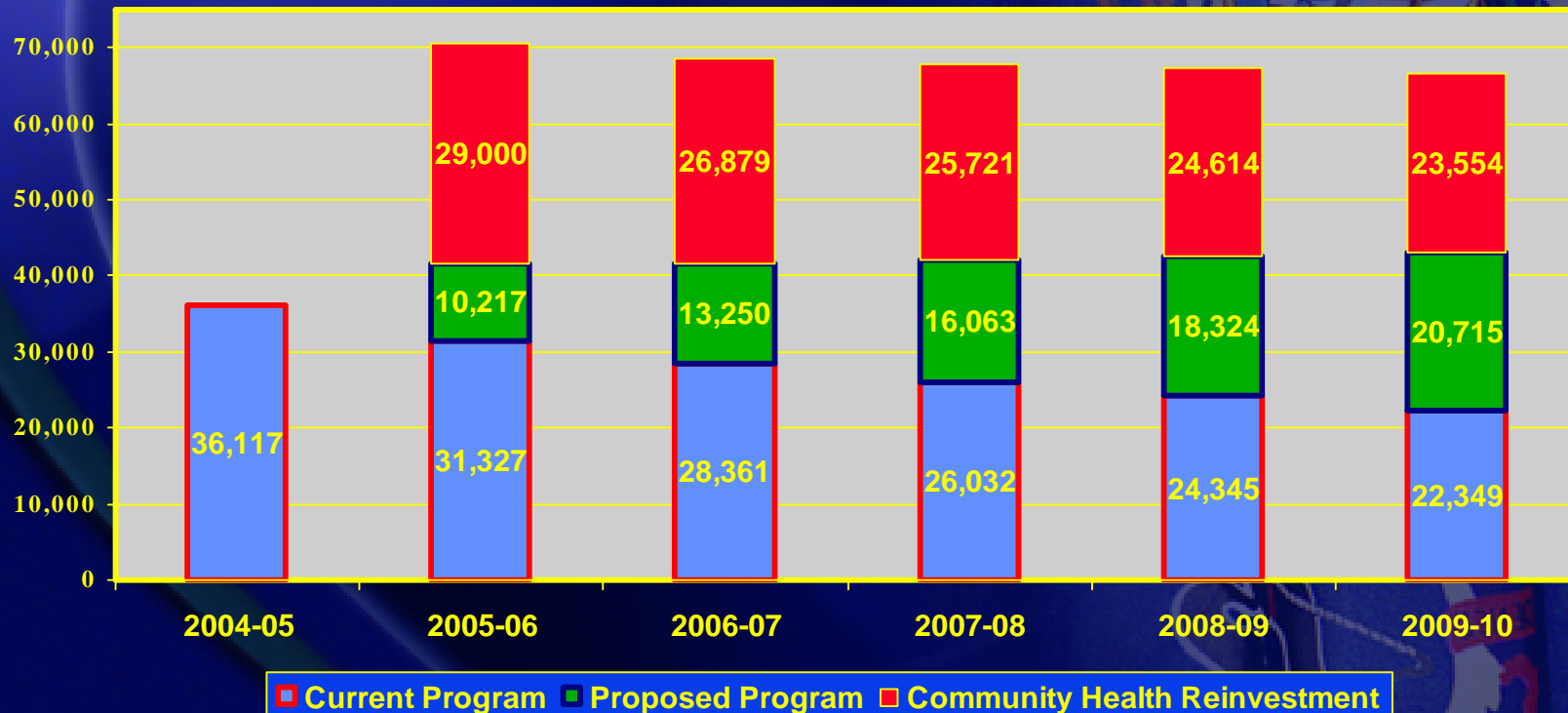
	Current Legislation (05-06)		Proposed Legislation (05-06)	
	Percentage	Funding	Percentage	Funding*
Adult Health Insurance and Medical Assistance for Workers with Disabilities (Combined)	30%	\$107.7 million	37%	\$147.8 million
Health Research (Combined)	19%	\$68.2 million	13%	\$51.9 million
Home & Community-Based Services	13%	\$46.7 million	14%	\$55.9 million
Tobacco Use-Prevention and Cessation	12%	\$43.1 million	10%	\$39.9 million
Hospital Uncompensated Care	10%	\$35.9 million	10%	\$39.9 million
PACENET Expansion	8%	\$28.7 million	8%	\$31.9 million
Endowment	8%	\$28.7 million	8%	\$31.9 million
<b>TOTAL</b>	<b>100%</b>	<b>\$359.0 million</b>	<b>100%</b>	<b>\$399.2 million</b>

\* In addition to changing allocations, the budget proposes to utilize investment earnings to increase revenues available for distribution.

# Adult Health Insurance

## Annualized Persons Served With and Without Tobacco Changes and Community Health Reinvestment

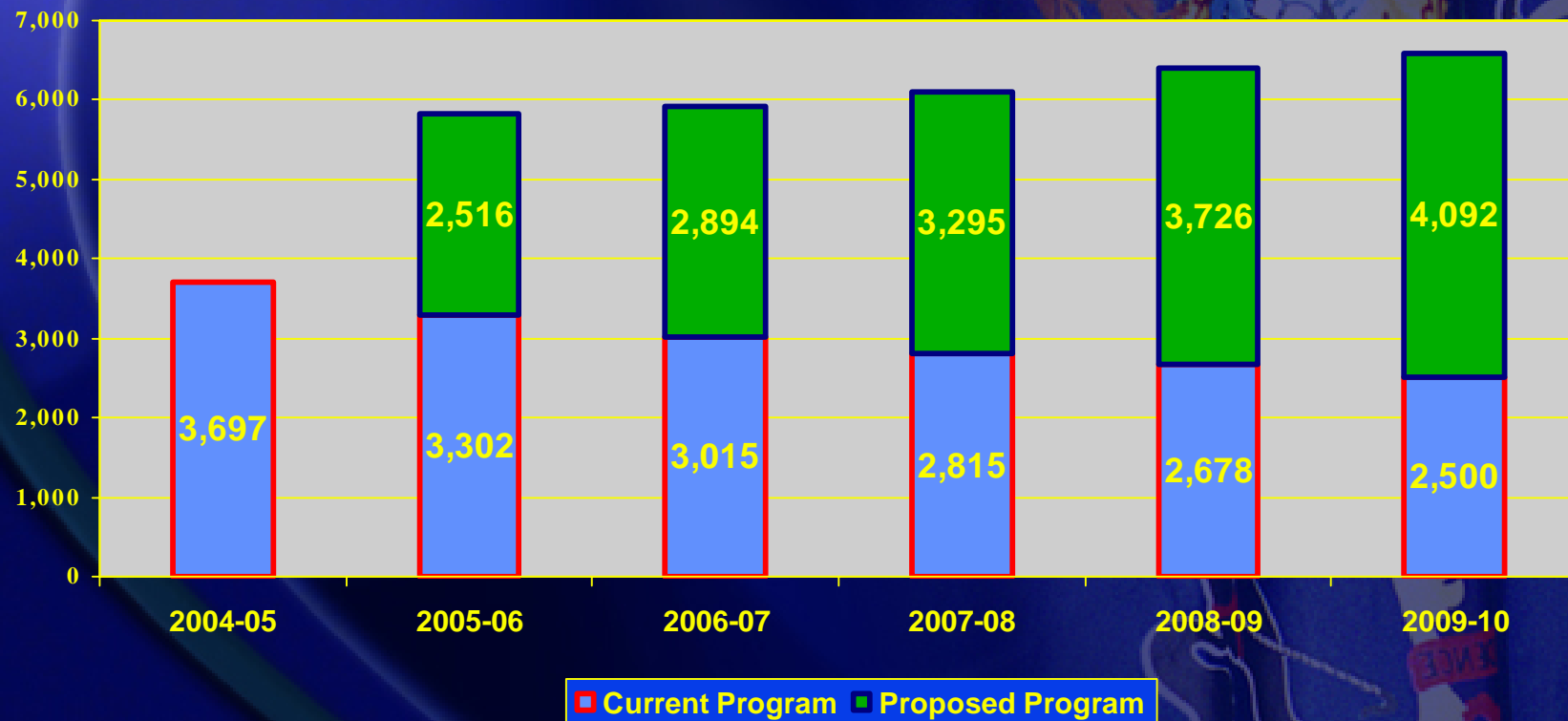
*Due to decreased tobacco revenue and increased cost to serve individuals, the number of individuals served is projected to decline each year under the current allocations. Changing the allocations enables more than 10,000 additional individuals to receive service in the 2005-06 fiscal year at an average cost of \$3,076 per person. In addition, the Community Health Reinvestment Program will enable an additional 29,000 individuals to receive health care in 2005-06. In total, there will be a 95 percent increase in the number of individuals receiving health care coverage in 2005-06.*



# Medical Assistance for Workers with Disabilities

## Annualized Persons Served With and Without Tobacco Changes

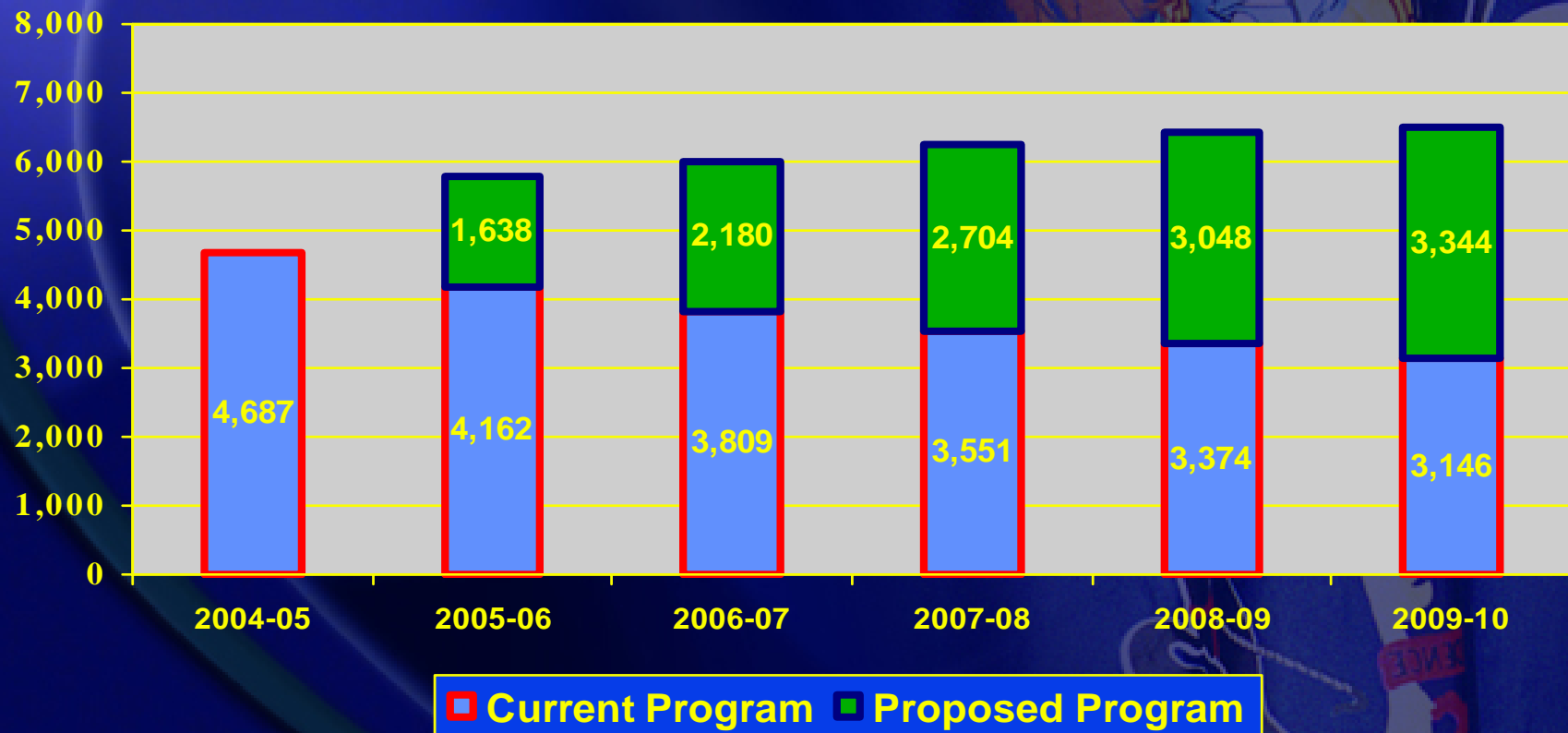
*Due to decreased tobacco revenue and increased costs to serve individuals, the number of individuals served is projected to decline each year under the current allocations. Changing the allocations enables more than 2,500 additional individuals, an increase of 57 percent, to receive service in the 2005-06 fiscal year at an average cost of \$3,432 per person.*



# Home and Community-Based Services for Older Pennsylvanians

## Annualized Persons Served With and Without Tobacco Changes

*Due to decreased tobacco revenue and increased costs to serve individuals, the number of individuals served is projected to decline each year under the current allocations. Changing the allocations enables nearly 1,650 additional individuals, an increase of 32 percent, to receive service in the 2005-06 fiscal year at an average cost of \$8,950 per person.*

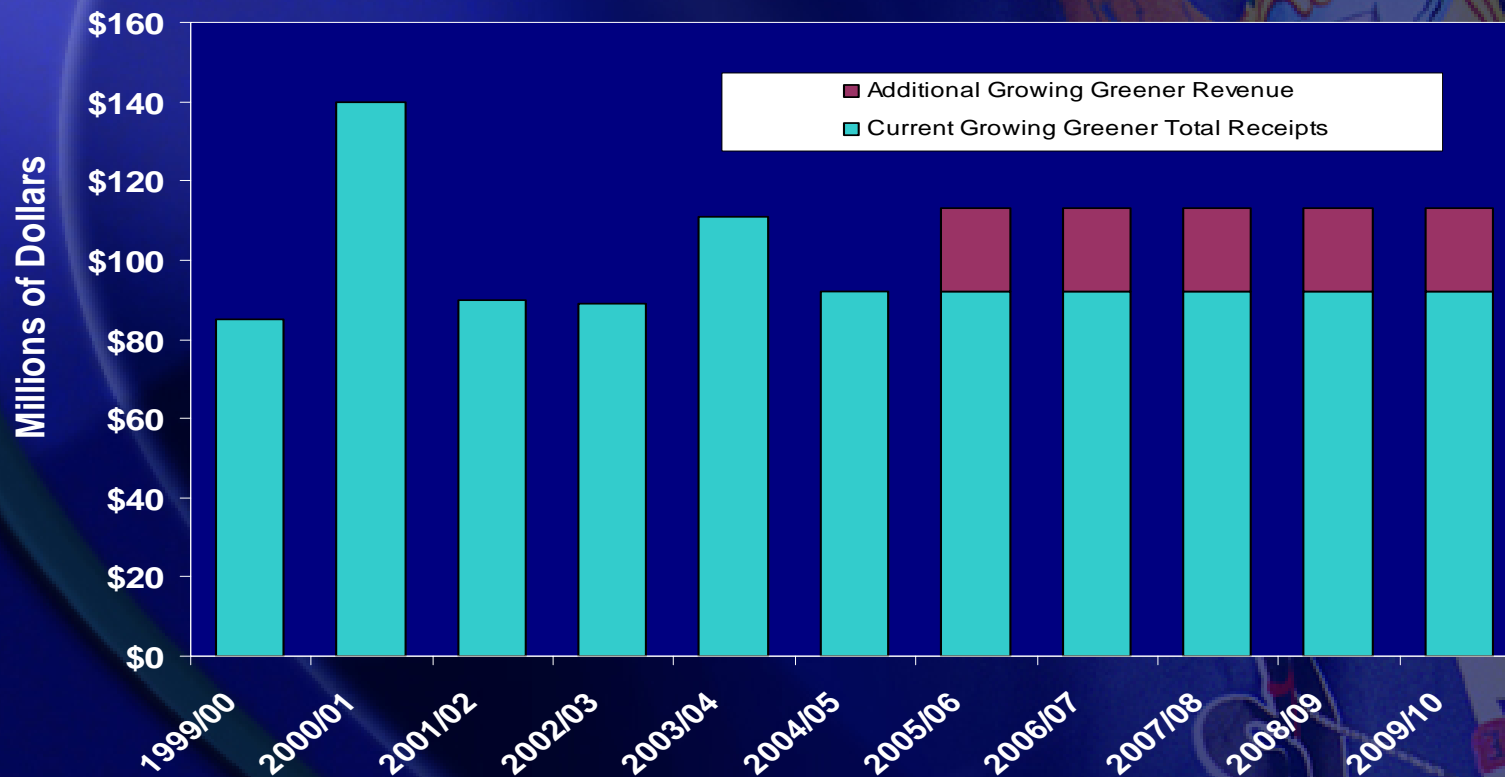


The background is a dark blue gradient. On the left, there is a stylized globe with a thick green line curving around it. On the right, there is a faint, light-colored version of the coat of arms of the Commonwealth of Massachusetts, which includes a Native American figure holding a bow and arrow, a star, and a crest with an arm holding a sword. Below the crest is a ribbon with the word 'LIBERTY' and another ribbon with the word 'ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM'.

**Growing Greener II:  
Investing in Our Quality of Life**

# Environmental Stewardship Fund ("Growing Greener")

*The Environmental Stewardship Fund was created in 1999. Growing Greener II would provide an additional \$21 million a year for the same activities conducted under the original program and would return a permanent share of funding to the Agricultural Conservation Easement Purchase Fund.*



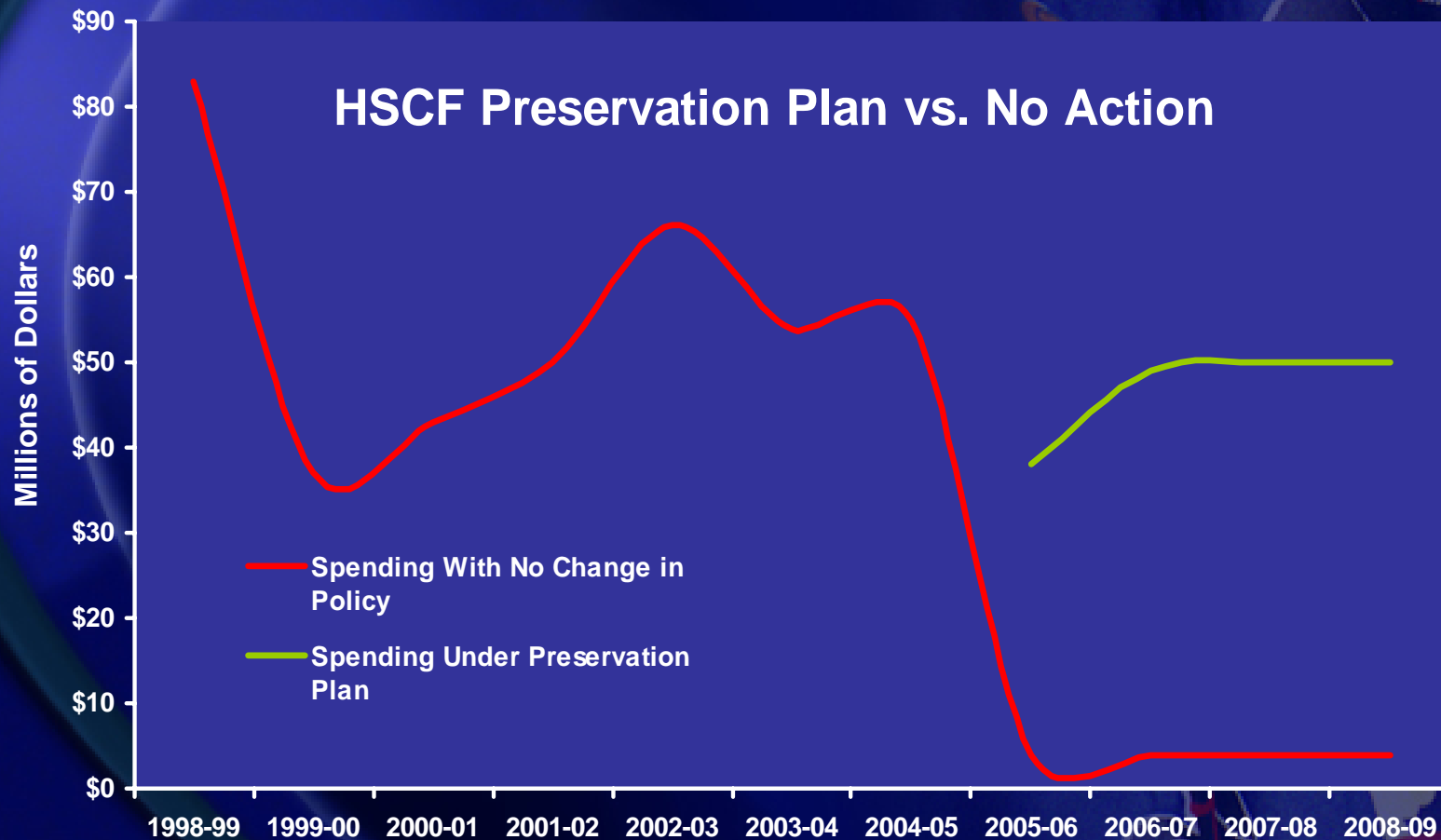


## Environmental Stewardship Fund (Current “Growing Greener” Program)

*Revenues to the Environmental Stewardship Fund have decreased because transfers from the Recycling Fund and Hazardous Sites Cleanup Funds were only authorized through FY 2003-04. The Department of Agriculture received a one-time \$16.5 million in FY 2004-05, and this program will not receive additional funding as the current program is structured.*

		(in thousands)		
		2003-04	2004-05	2005-06
		<u>Actual</u>	<u>Available</u>	<u>Estimate</u>
Beginning Balance		1,529	5,512	1,114
Fees		90,078	89,500	89,500
Transfers (Recycling and Haz. Sites)		15,000	0	0
Interest/Lapses		6,005	2,000	2,000
Total Receipts		<u>111,083</u>	<u>91,500</u>	<u>91,500</u>
<b>Total Available</b>		<b>\$112,612</b>	<b>\$97,012</b>	<b>\$92,614</b>
Expenditures	DEP	40,055	34,697	40,472
	DCNR	25,811	22,549	26,302
	AG	15,851	16,500	0
	PennVEST	25,383	22,152	25,840
<b>Total Expenditures</b>		<b>\$107,100</b>	<b>\$95,898</b>	<b>\$92,614</b>
<b>Ending Balance</b>		<b>\$5,512</b>	<b>\$1,114</b>	<b>\$0</b>

# Hazardous Site Cleanup Will Stop Without New Revenue



## **Failure to find a new revenue source for Growing Greener and the Hazardous Sites Cleanup Fund means:**

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- Total annual spending under the current Growing Greener program would drop from a high of \$140 million in 2000-01 to \$93 million in 2005-06.
- A loss of \$16.5 million in annual funding for the farmland preservation program, which could have saved 7,900 acres of prime farmland.
- The completion of 25 hazardous site cleanup projects and \$22 million in cleanup activities would be lost on an annual basis.
- 228 hazardous waste site investigations per year would no longer be initiated.
- DEP would no longer be able to respond to immediate emergencies related to the release of hazardous waste.



**Homeland Security,  
Emergency Management Response,  
and Public Safety**

# Disaster Funding

*In September 2004, the Commonwealth experienced extensive natural disasters caused by Hurricanes Frances and Ivan, which resulted in Federal disaster declarations in 56 counties and initial loss estimates of \$264 million. The Commonwealth is committed to providing 100% of funds required to match Federal disaster relief relieving local government of any obligations for these disasters. A total of \$78.6 million in State funds and \$86 million in Federal funds is recommended in FY 2004-05 and FY 2005-06. Additional State and Federal funds will be required in future years to cover estimated losses.*

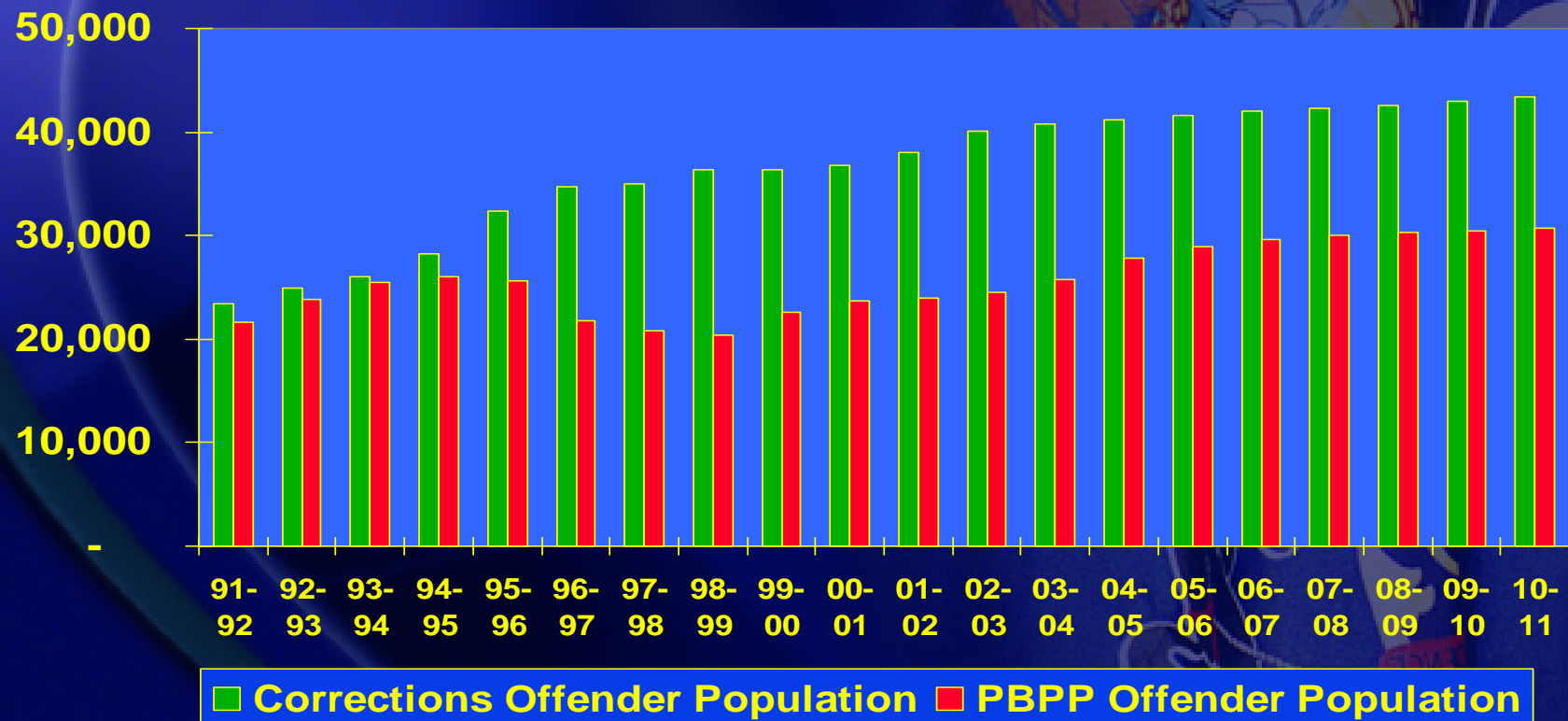
## Amounts in Thousands

	Available FY 2004-05	Budget FY 2005-06
<b>September 2004 Tropical Storm Ivan – Public Assistance (State)</b>	\$10,000 <sup>a</sup>	\$ 17,600
<b>September 2004 Tropical Storms – Public Assistance (Federal)</b>	\$40,000	\$ 40,500
<b>September 2004 Tropical Storm Ivan – Hazard Mitigation (State)</b>	\$0	\$ 1,000
<b>September 2004 Tropical Storms – Hazard Mitigation (Federal)</b>	\$0	\$ 5,500
<b>Transportation Disaster Recovery (State)</b>	\$0	\$ 50,000
<b>TOTAL</b>	<b>\$50,000</b>	<b>\$114,600</b>

a) Includes recommended supplemental of \$5,000,000.

# Pennsylvania's Offender Population

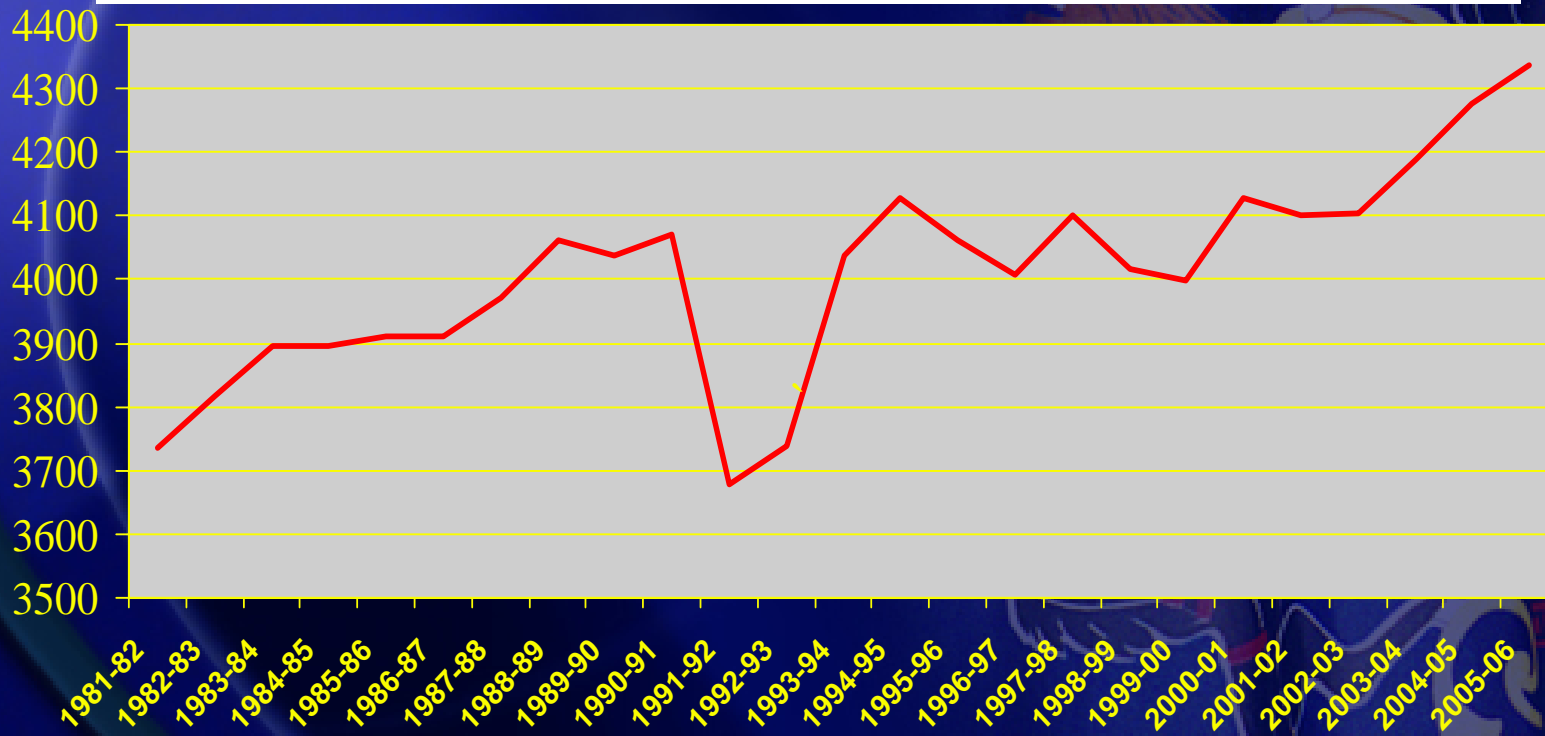
Since 1991, the Department of Corrections and the Board of Probation and Parole have seen increases in their offender populations of 75 percent and 29 percent, respectively. While Corrections' offender population is projected to remain relatively constant over the next five years, the Board's offender population is projected to increase another 10 percent over the same time period as former inmates begin to move under the Board's supervision. Through improved management of Corrections and BPP resources, the 2005-06 budget will permit both agencies to effectively manage the populations under their supervision .



# History of State Police Trooper Strength

## Number of Filled Trooper Positions

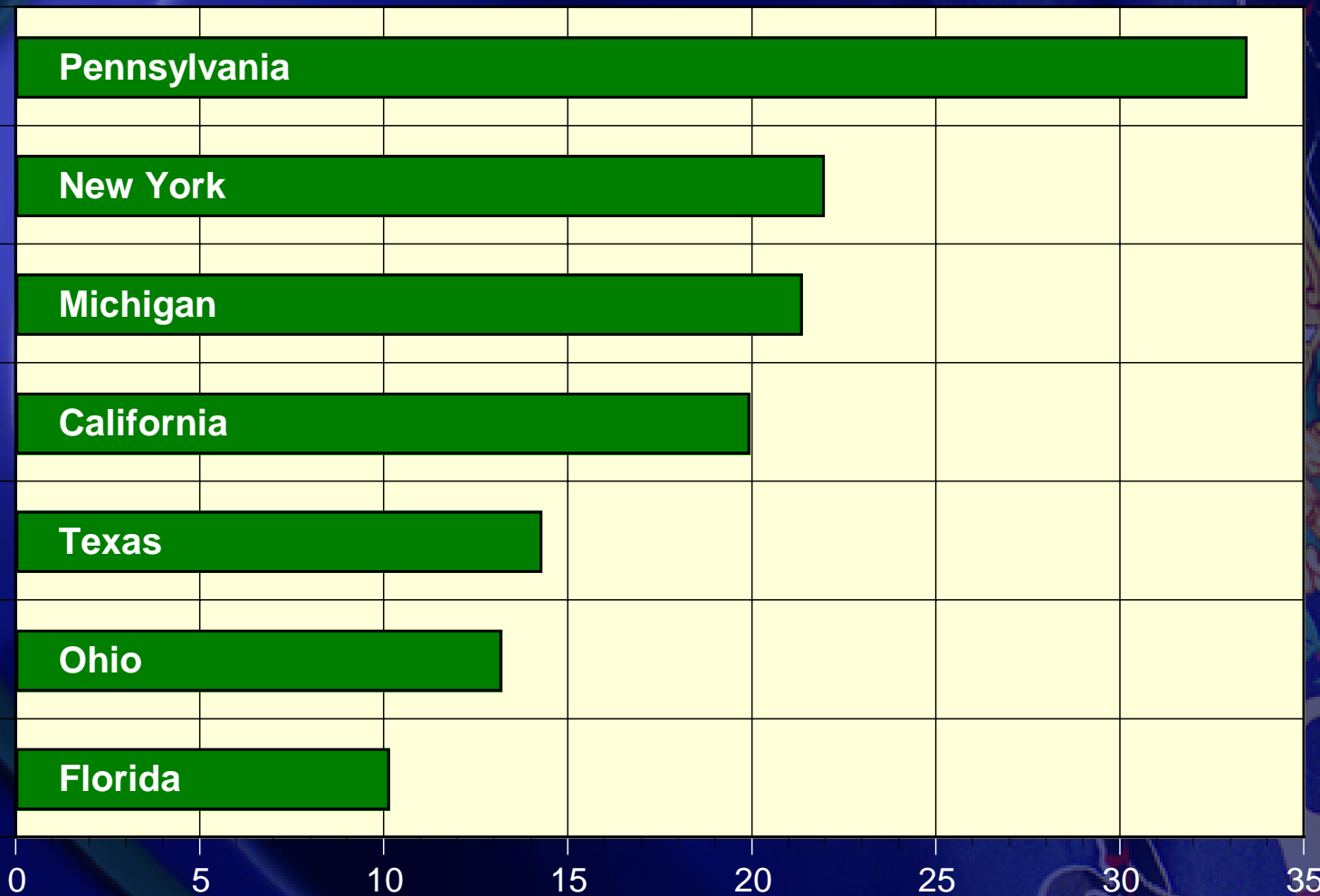
*For the third year in a row, this budget provides funding for the highest level of filled Trooper positions, a total of 4,338. The State Police has received nearly \$32 million in State-funded appropriation increases since FY 2003-04.*



Note: FY 2005-06 reflects an increase of 50 Troopers for Gaming Administration and 13 State Police Troopers to patrol bridges under the jurisdiction of the Delaware River Joint Toll Bridge Commission.

# State Police

## Per 100,000 Population



Full-time law enforcement officers as of October 2001.



# State Police Funding Allocation

*The current budget updates the State Trooper funding allocation. General and Motor License Funds are recommended based on a head count of troopers assigned to highway patrol and criminal investigative activities. For the major operating appropriations, the updated methodology increases Motor License Funds from 68 percent to 73 percent and decreases General Funds from 32 percent to 27 percent. This budget recommends an increase of \$22.3 million to the General Government Operations Appropriation.*

Amounts in Thousands

	Percentage Allocation	General Funds	Motor License Funds	Total
<b>General Government Operations</b>	<b>27% GF/ 73% MLF</b>	<b>\$137,293</b>	<b>\$372,085</b>	<b>\$509,378</b>
<b>Law Enforcement Information Technology</b>	<b>27% GF/ 73% MLF</b>	<b>\$11,885</b>	<b>\$32,135</b>	<b>\$44,020</b>
<b>Patrol Vehicles</b>	<b>0% GF/ 100% MLF</b>	<b>\$0</b>	<b>\$7,000</b>	<b>\$7,000</b>
<b>Automated Fingerprint Identification System</b>	<b>91% GF 9% MLF</b>	<b>\$1,226</b>	<b>\$121</b>	<b>\$1,347</b>
<b>Total</b>		<b>\$150,404</b>	<b>\$411,341</b>	<b>\$561,745</b>

Patrol Vehicles appropriation is funded 100 percent by the Motor License Fund because vehicles are purchased for troopers assigned to highway patrol. Automated Finger Identification System is funded by 9 percent Motor License Funds and 91 percent General Funds based on workload estimates.

# Emergency Management Preparedness and Response

*Pennsylvania continues to invest in its public safety infrastructure to guard against and prepare to respond to incidents that threaten the safety and security of the Commonwealth's citizens.*

- **\$14 million for the Statewide Public Radio System.**
- **\$150 million in Federal funding to support the Commonwealth's first responders.**
- **\$25 million to support volunteer fire and emergency medical services companies.**
- **\$3.7 million in Federal funding to support nuclear and chemical security preparedness.**
- **\$80.8 million in Federal funding for Public Health Emergency Preparedness and Response programs.**

# Additional Public Safety Investments

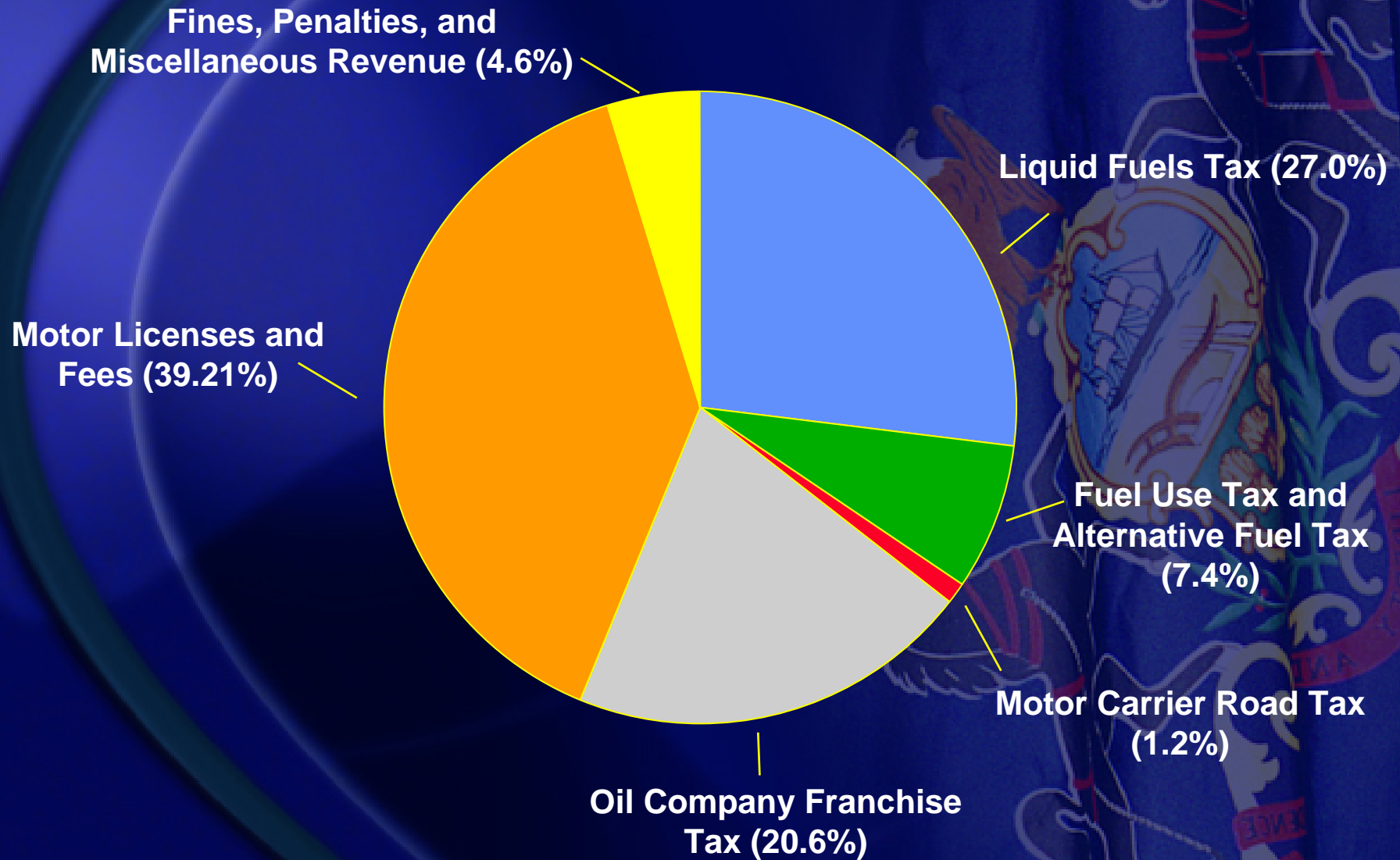
## A Comprehensive Strategy to Maintain Public Safety and Reduce Recidivism

- ✓ **Intermediate Punishment Drug and Alcohol Treatment Program:** The Commission on Crime and Delinquency receives a \$2.5 million increase to \$15.8 million. This increase will expand treatment and programming options for offenders and divert additional offenders from State prison and County jails.
- ✓ **Education Programs:** Corrections is refocusing education resources and targeting its vocational resources on training inmates for jobs in the communities to which they will return.
- ✓ **Data Collection:** Corrections and the Board of Probation and Parole are working to jointly collect inmate data which may identify trends or factors showing why offenders are committing new crimes. Jointly collected data will also isolate processing problems and release delays within the parole system.
- ✓ **Offender Management System:** Corrections and the Board of Probation and Parole are implementing an integrated offender management system that will replace separate, incompatible systems and will result in better data sharing and program coordination.
- ✓ **Business Process Improvements:** Corrections and the Board of Probation and Parole have convened a joint committee which meets regularly to discuss and implement business process improvements to the parole process.

# Transportation



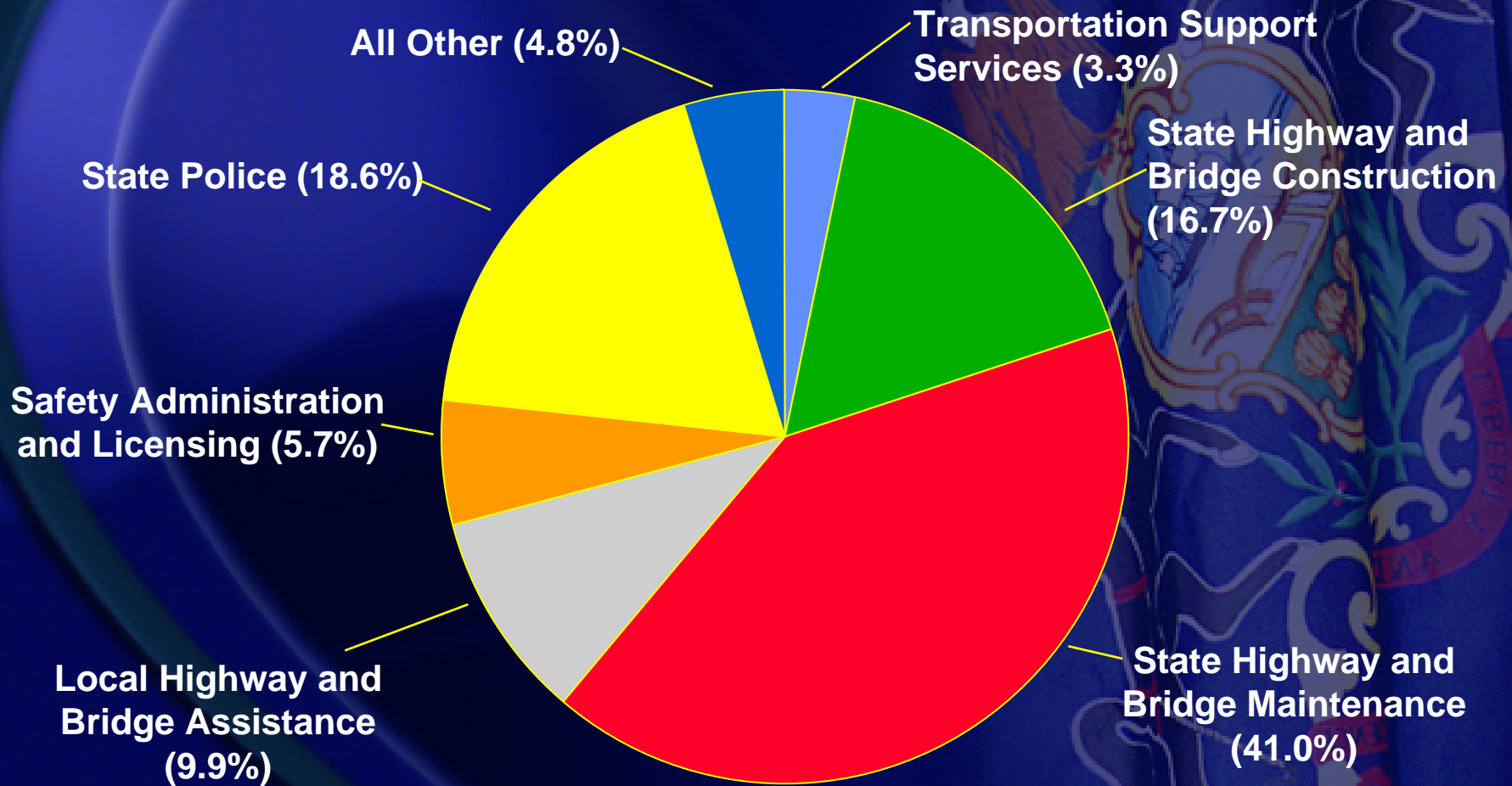
# Motor License Fund Sources of Revenue



# Motor License Fund

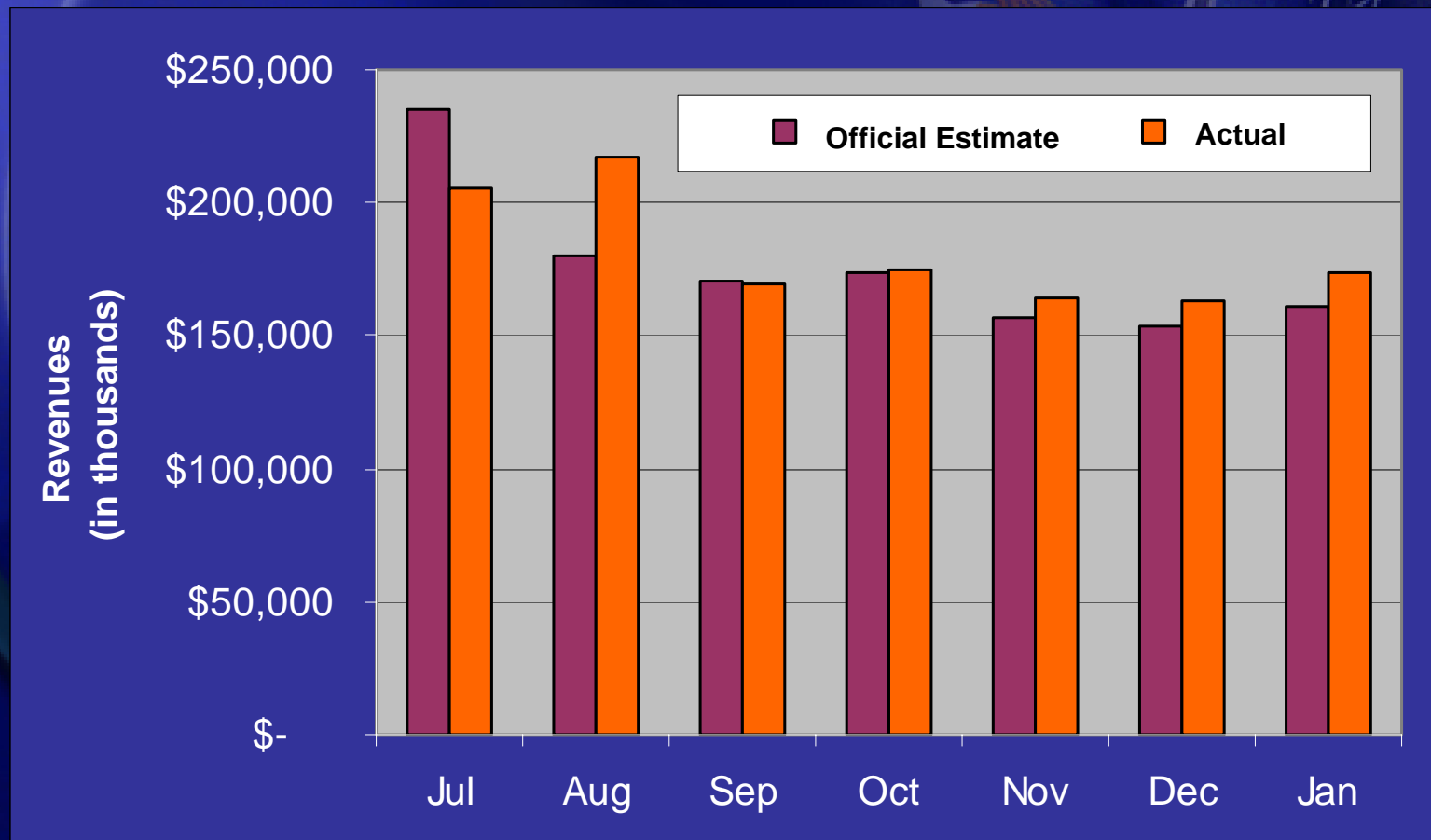
## Expenditures by Agency and Transportation Program Area

About 68 percent of all non-restricted Motor License Fund dollars are used to build or maintain roads and bridges within the Commonwealth. The remainder is used for highway law enforcement, licensing, and safety and support activities.



## 2004-05 Motor License Fund Forecast vs. Actual Collections

FY 2004-05 Motor License Fund revenues are a cumulative \$36.4 Million above estimate through January.



# Recent PennDOT Accomplishments

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- **Growing Greener II -- Home Town Streets/Safe Routes to School Program Implementation**
  - \$83 Million has been invested to revitalize our communities and improve safety for children walking to school.
- **Maintenance Efficiency** program on target to redirect over \$11 Million in savings from the maintenance program to highway and bridge construction programs.
- **Improved Project Delivery and Rightsizing** to reduce costs of transportation projects and make more funding available for more projects.
- **Focused Bridge Program** to reduce the number of structurally deficient bridges in Pennsylvania.



# Pennsylvania's Highway & Bridge System Preservation Needs

(excluding system capacity expansions)

*The average bridge lifespan is 50 years, but the median age of PA State and local bridges is 49 years and 56 years, respectively. Even with increasing Motor License revenues, projected needs to make Pennsylvania's highways and bridges smoother and safer still outpace anticipated future revenues.*

## ➤ Highway Pavement:

- 6 Year Needs \$ 18.0 Billion
- 6 Year Available Funds \$ 13.2 Billion
- Gap \$ 4.8 Billion

## ➤ Bridges:

- 6 Year Needs \$ 3.3 Billion
- 6 Year Available Funds \$ 1.8 Billion
- Gap \$ 1.5 Billion

**Estimated Bridge-Highway Preservation Requirement**

**\$ 6.3 Billion over 6 Years**

**Potential offset from**

**additional Federal & State funds**

**\$ 3.6 Billion**

**Shortfall =**

**\$2.7 Billion**

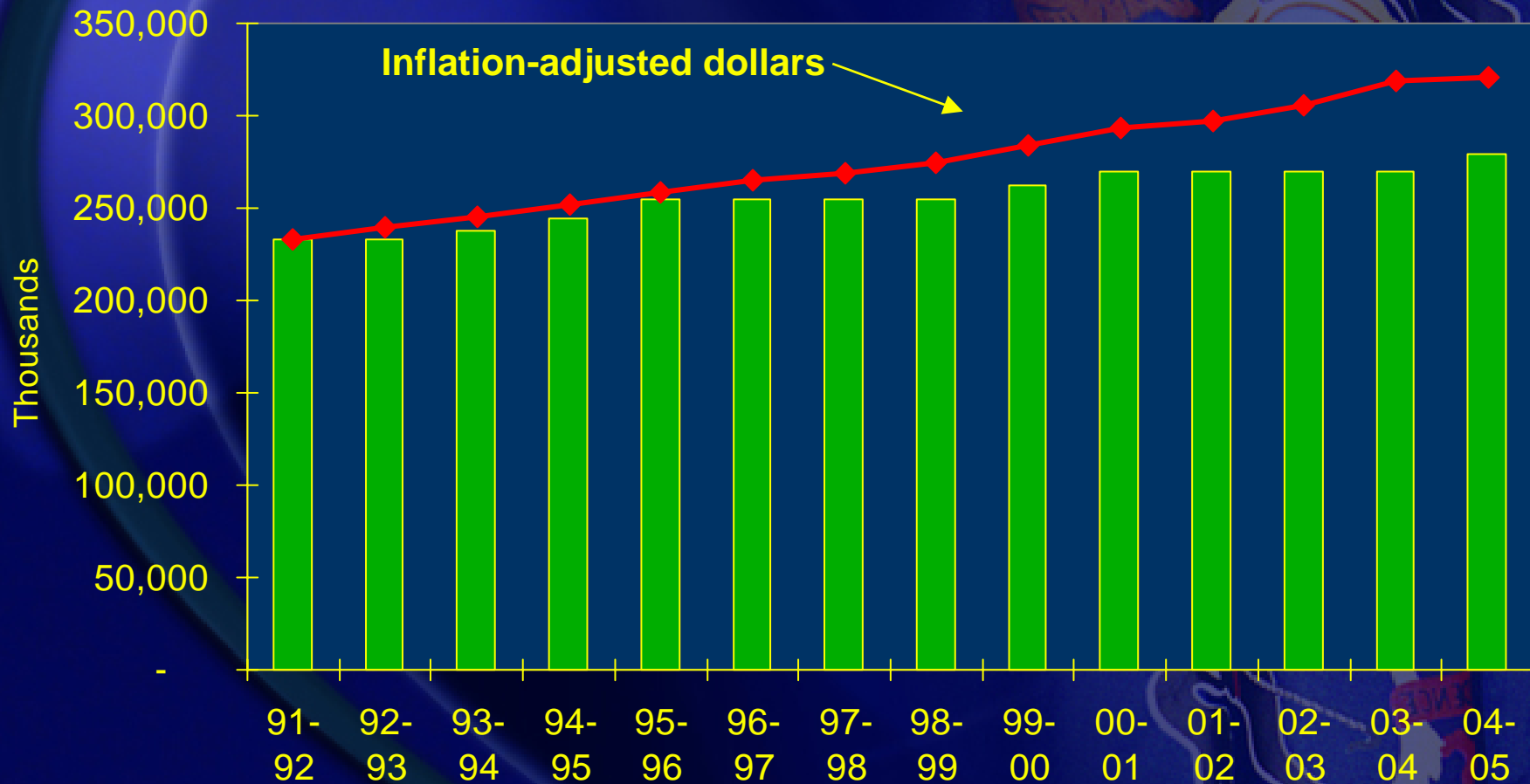
# Importance of Mass Transit to Pennsylvania

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- There are over 70 urban, rural, and community transit systems serving every Pennsylvania county.
- Mass transit brings over a million employees and customers to businesses every day.
- Transit systems spend more than \$1.2 billion on operations in their communities annually.
- Transit systems directly or indirectly employ 53,000 people in PA.
- Each \$1 of state/local money spent on public transportation capital improvements brings up to an additional \$4 of Federal grant money into PA.
- Work trips represent over 50% of all trips provided on public transit.

# Mass Transportation Assistance (GF) Funding

If General Fund Mass Transportation Assistance appropriation levels had kept pace with inflation, FY 2004-05 funding would be nearly \$33 million higher. The 2005-06 budget recommends a 2 percent increase (\$5.8 million) to this appropriation, which represents a modest down payment for public transit needs. The Administration continues to believe that transit's budget problems must be fixed by securing additional dedicated funding sources to augment the Public Transportation Assistance Fund created in 1991.



# Rainy Day Fund



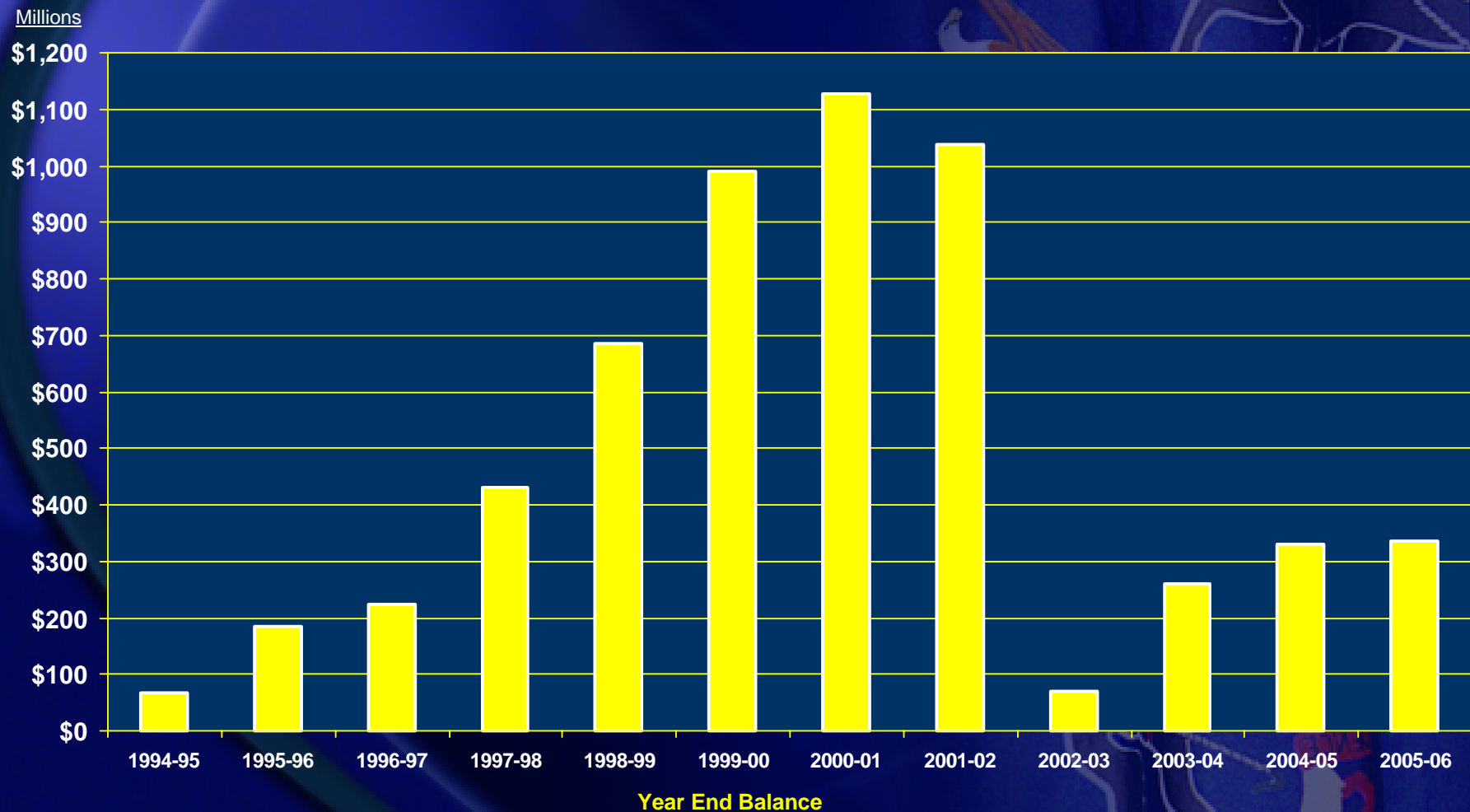
# 2005-06 General Fund Financial Statement

The FY 2005-06 General Fund Budget is balanced without the aid of \$847M in Federal Fiscal Relief Funds that were available in the 2003-04 and 2004-05 fiscal years.

	\$ Millions		
	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Beginning Balance .....	\$ 196	\$ 77	\$ 201
Receipts .....	21,956	23,171	\$ 23,649
Funds Available .....	<u>\$ 22,152</u>	<u>\$ 23,248</u>	<u>\$ 23,850</u>
Expenditures .....	- 22,395	- 23,408	- 23,845
Lapse .....	<u>41</u>	<u>50</u>	<u>. . . .</u>
Balance .....	\$ - 202	\$ - 110	\$ 5
<b>Non-recurring Federal Fiscal Relief . . .</b>	<b><u>469</u></b>	<b><u>378</u></b>	<b><u>. . . .</u></b>
Preliminary Balance .....	\$ 267	\$ 268	\$ 5
Transfer To Rainy Day Fund .....	- 190	- 67	\$ - 1
<b>Ending Balance .....</b>	<b><u><u>\$ 77</u></u></b>	<b><u><u>\$ 201</u></u></b>	<b><u><u>\$ 4</u></u></b>

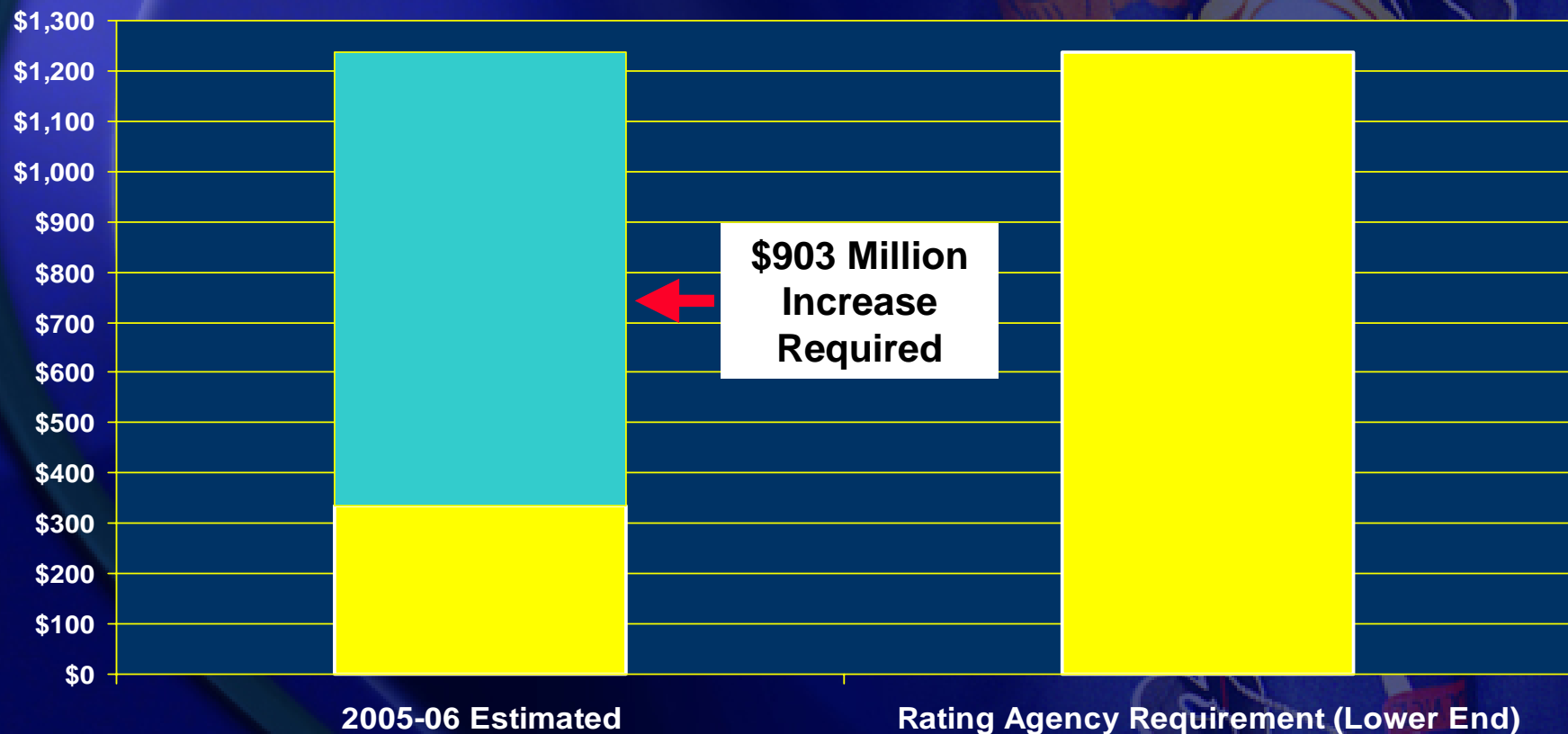
# Status of PA's Rainy Day Fund

*Reserves were built up substantially during the latter part of the 1990's and peaked at over \$1 billion in 2000-01. The Fund was depleted in order to balance the 2002-03 General Fund budget. The current balance in the fund is \$260 million. This budget projects statutory transfers of \$67.1 million from 2004-05 and \$1.2 million from 2005-06.*



# PA Must Restore Its Rainy Day Fund

*After the massive budget deficits experienced by the states in the 2001-2004 period, Rating Agencies are now insisting that states need to maintain a Rainy Day balance of 5% to 15% of annual revenues. In order to meet the lower end of Rating Agency requirements and maintain the Commonwealth's bond rating, Pennsylvania will need to increase its Rainy Day Fund to \$1.2 Billion, an increase of \$903 Million.*



Commonwealth of Pennsylvania

***2005-06***  
***Governor's***  
***Executive Budget***



**Edward G. Rendell**  
*Governor*