



*Commonwealth of
Pennsylvania*

Commonwealth of Pennsylvania

2007-08

Enacted Budget Overview

To find the *2007-08 Enacted Budget slide show* on the Web, go to www.budget.state.pa.us



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2007-08 Enacted Budget Highlights

The 2007-08 enacted budget invests in our children, promotes job creation, resolves the public transportation crisis and preserves the social safety net that protects the elderly, people with disabilities and other Pennsylvanians in need.

- The enacted 2007-08 General Fund budget is **\$27.2 billion**, an increase of 3.2 percent over 2006-07. In the enacted budget, \$320 million of mass transit funding is shifted to a new Trust Fund.
- More than two-thirds of the increase in the General Fund budget, or \$600 million, is for **Education (PreK–12 and Higher Education)**.
- The enacted 2007-08 General Fund budget limits spending growth to less than one percent in all areas other than Education, Public Welfare, Corrections and Probation and Parole, while improving many vital state-supported services.
- The enacted budget contains additional funding to address continuing offender population growth and new resources to reduce the rate of prison re-entry.
- The enacted budget also continues investments to make appropriate options available for long-term living.
- Administrative spending in 2007-08 is 2.3 percent below 2002-03 levels.



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2007-08 General Fund Financial Statement

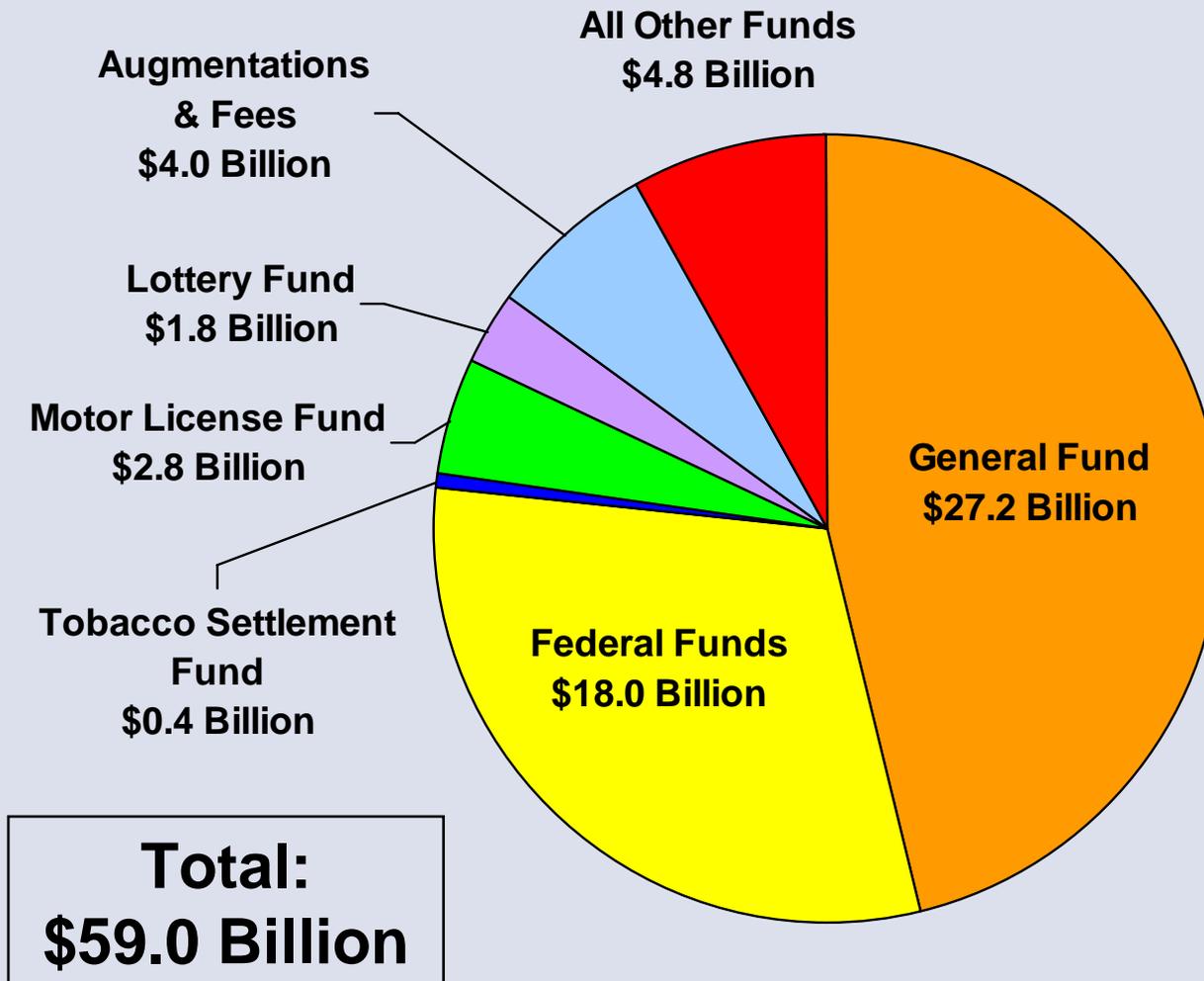
Dollars in Millions

	<u>2006-07</u> Available	<u>2007-08</u> Budget
Beginning Balance	\$ 514	\$ 531
Adjustment to Beginning Balance . .	8
Receipts	26,399	26,641
Prior Year Lapses	85
Funds Available	<u>\$ 27,006</u>	<u>\$ 27,172</u>
Expenditures	\$ - 26,122	\$ - 27,162
Supplemental Appropriations	- 197
Current Year Lapses	21
Preliminary Balance	<u>\$ 708</u>	<u>\$ 9</u>
Transfer to Rainy Day Fund	<u>- 177</u>	<u>- 2</u>
Ending Balance	<u><u>\$ 531</u></u>	<u><u>\$ 7</u></u>



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2007-08 Total Operating Budget

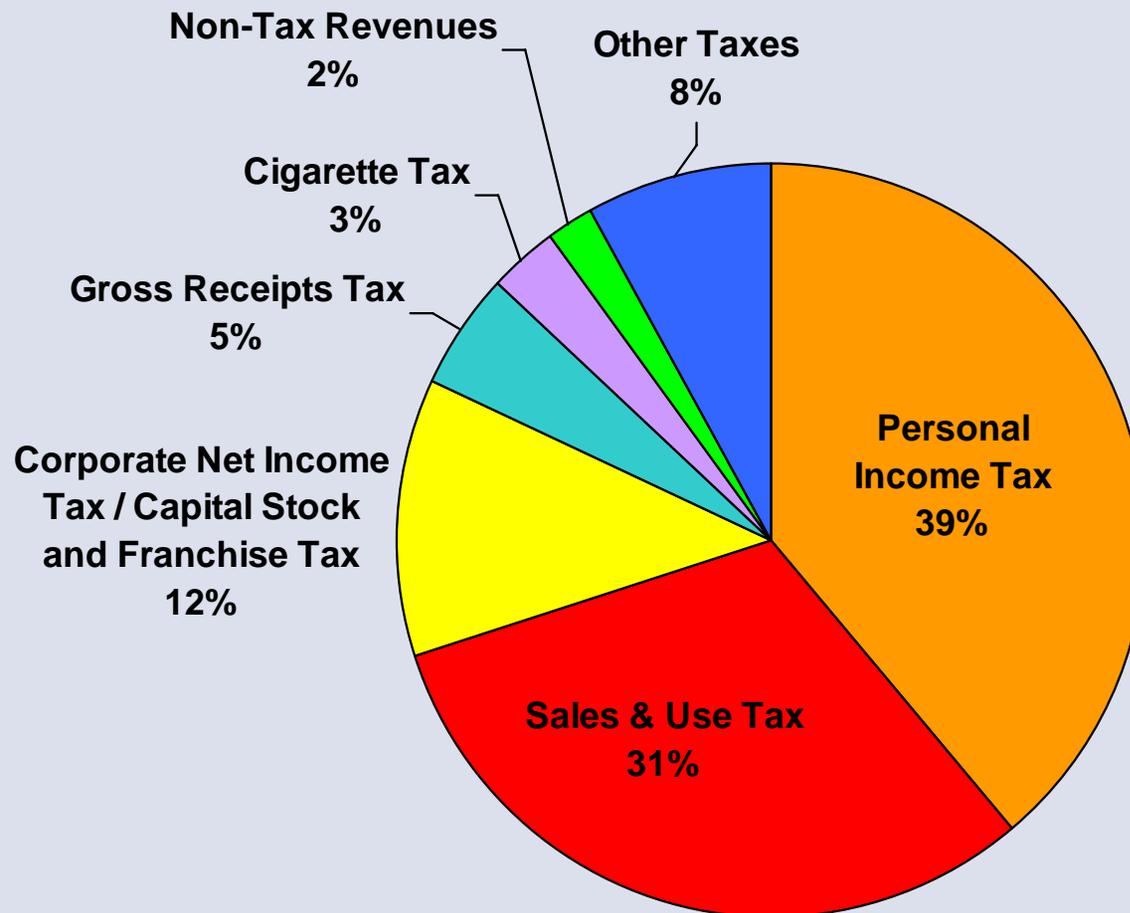


The total 2007-08 operating budget, including all commonwealth funds, is \$59.0 billion. The General Fund represents 46 percent of this amount.



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2007-08 General Fund Revenue Sources



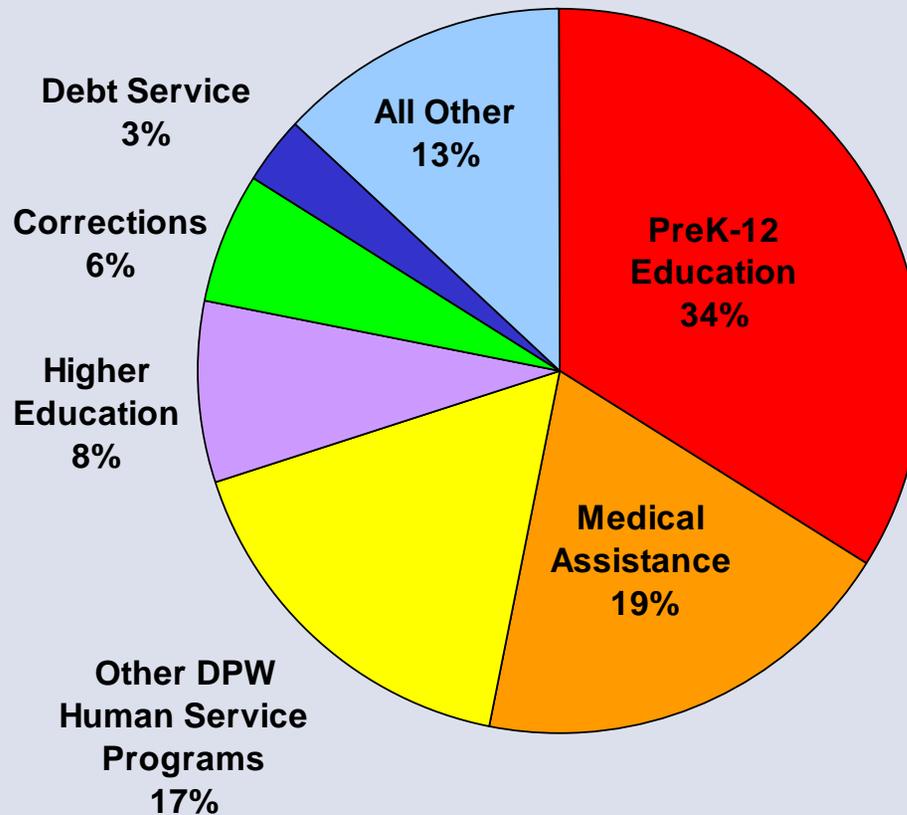
More than two-thirds (70 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales & Use Tax.



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2007-08 General Fund Expenditures

The 2007-08 General Fund budget is \$27.2 billion -- an increase of \$843 million, or 3.2 percent, over 2006-07.



Spending on Education, Medical Assistance, other Department of Public Welfare programs, Corrections and Debt Service comprises 87 percent of total General Fund expenditures.

**Total Expenditures:
\$27.2 Billion**

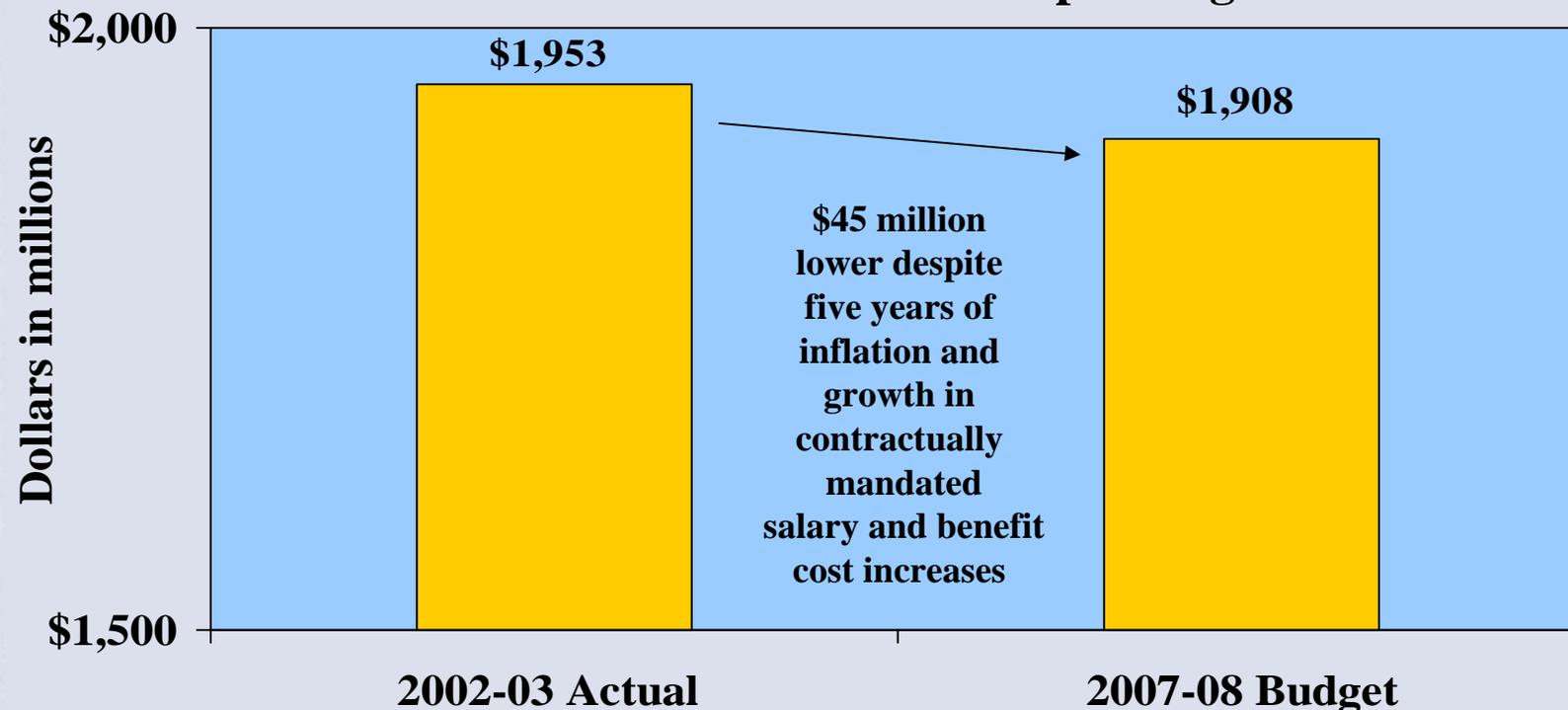


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Pennsylvania Has Cut Administrative Spending

The Rendell administration is committed to making needed investments in education, economic development and human services. One way this is being accomplished is by reducing administrative spending to the maximum extent possible so that more state resources can go to vital programs Pennsylvanians rely on. Despite sharp increases in health benefit costs, fuel costs and numerous other costs, administrative spending is still 2 percent lower in 2007-08 than in 2002-03.

State Administrative Spending

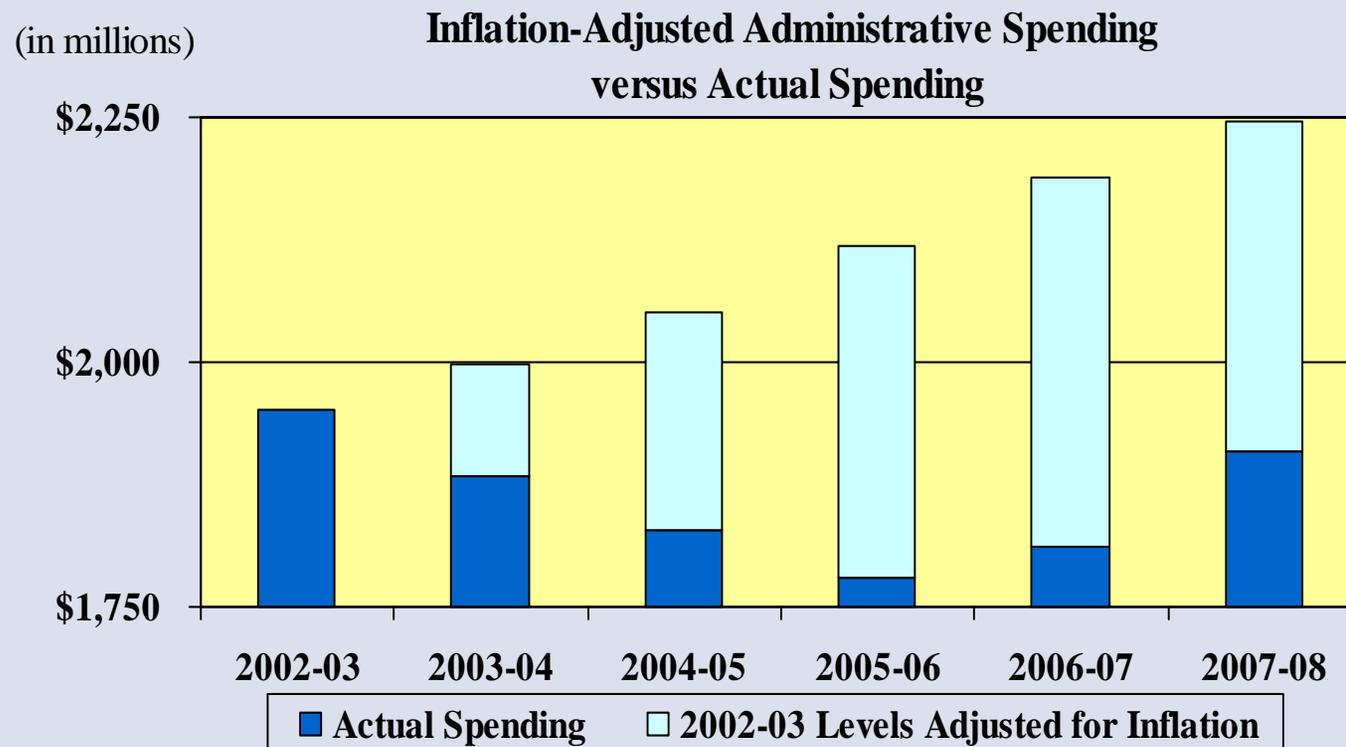




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Holding the Line on Administrative Spending

Initiatives implemented in conjunction with the Governor's Office of Management and Productivity have enabled the commonwealth to hold the line on state administrative spending. Even after five years, the cost to operate state government is 2.3 percent lower than it was in 2002-03 – in real dollars. If state administrative spending had been allowed to grow with the rate of inflation, the cost of operating state government would be \$337 million higher in 2007-08.



Note: Annual 2007 inflation estimated to be 2.6%



Enacted 2006-07 Supplemental Appropriations

(Dollar Amounts in Thousands)
2006-07 Enacted

Conservation and Natural Resources – <i>State Parks Operations</i> ...	\$	950
Education	\$	24,321
<i>Early Intervention ~ \$3.2 million to serve 800 more children</i>		
<i>PA Charter Schools for the Deaf and Blind ~ \$0.8 million</i>		
<i>Special Education – Approved Private Schools ~ \$6.3 million</i>		
<i>School Employees’ Retirement ~ \$14.0 million</i>		
Environmental Protection – <i>Additional Black Fly Spraying</i>	\$	2,918
Labor and Industry – <i>Workers’ Compensation Payments</i>	\$	950
Military and Veterans Affairs		
<i>Merchant Marine World War II Veterans Bonus</i>	\$	111
Public Welfare	\$	164,062
<i>Outpatient Medical Assistance ~ \$4.8 million</i>		
<i>Inpatient Medical Assistance ~ \$56.1 million</i>		
<i>Capitation Medical Assistance ~ \$94.1 million</i>		
<i>Long-Term Care Facilities ~ \$7.7 million</i>		
<i>Mental Health Services ~ \$3.8 million</i>		
<i>Youth Development Institutions ~ \$2.5 million</i>		
<i>Other ~ \$ -5.0 million</i>		
Judiciary – <i>Courts of Common Pleas</i>	\$	<u>3,725</u>
Total Supplemental Appropriations	\$	<u>197,037</u>



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National Growth in General Fund Budgets

Thirty-five of the 47 other states reporting enacted budgets exceeded Pennsylvania's 3.2 percent rate of growth. The average spending increase for all states reporting, compared to the prior year, is 6.8 percent this year.

All-States Average: 6.8%

Utah	21.0%	Kansas	8.1%	New York	4.1%
Mississippi	19.0%	Kentucky	7.7%	Maine	3.7%
New Hampshire	18.5%	New Jersey	7.2%	Pennsylvania	3.2%
Louisiana	17.0%	Indiana	7.1%	Maryland	2.6%
Montana	16.9%	Arkansas	7.0%	Arizona	2.3%
Oregon	15.2%	Minnesota	7.0%	Hawaii	2.0%
North Dakota	13.4%	Texas	7.0%	Vermont	1.9%
Alaska	13.0%	Alabama	6.9%	West Virginia	0.8%
New Mexico	11.0%	Washington	6.7%	California	0.6%
South Carolina	10.1%	Missouri	6.4%	Florida	0.0%
North Carolina	9.5%	Colorado	6.1%	Wyoming	0.0%
Tennessee	9.3%	Delaware	5.9%	Oklahoma	-0.8%
Iowa	9.2%	Illinois	5.9%	Virginia	-1.7%
Georgia	9.0%	South Dakota	5.7%	Ohio	-2.4%
Idaho	8.8%	Rhode Island	5.5%	Nevada	-7.4%
Connecticut	8.6%	Nebraska	4.3%	Michigan	No Enacted Budget
		Massachusetts	4.2%	Wisconsin	No Enacted Budget

Source: Governor's Budget Office Survey, 2007. Data as of September 14, 2007.



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2007-08 Budget Overview

Education



Investing in Pennsylvania's Future

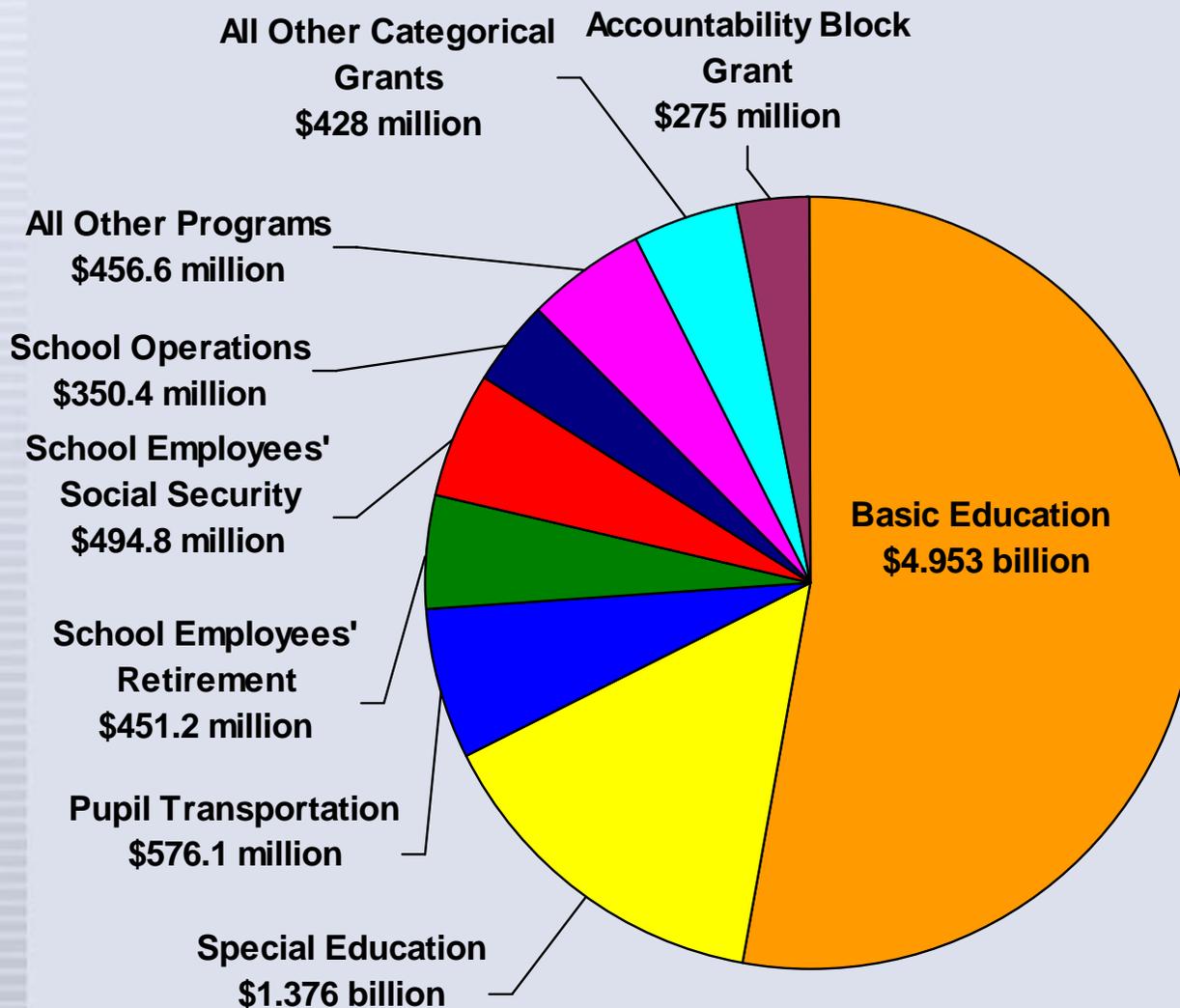
The 2007-08 enacted budget increases total education funding by \$600 million.

- **\$167 million increase (3.5 percent) in Basic Education Funding** - \$4.95 billion to continue a Foundation Funding approach to assist school districts to reach a research-based adequate funding level.
- **\$29.4 million increase (3 percent) in Special Education Funding** - \$1 billion in total.
- **\$275 million, a \$25 million increase**, for the third year of the **Accountability Block Grants** for school districts to invest in full-day kindergarten programs.
- **\$75 million** for the new **Pennsylvania Pre-K Counts** program.
- **\$40 million** in state funding for **Head Start** pre-kindergarten classrooms to serve 5,790 children.
- **\$66 million** for **tutoring** in the most academically challenged school districts (*Job Ready PA*).
- **\$9.2 million increase** for **community colleges** (*Job Ready PA*).



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2007-08 Funding for PreK-12 Education



Since 2002-03, the Rendell administration has boosted investments in education by \$2.3 billion, or nearly 34 percent, to a total of \$9.3 billion.

**Total:
\$9.3 Billion**



Transforming Pennsylvania's High Schools

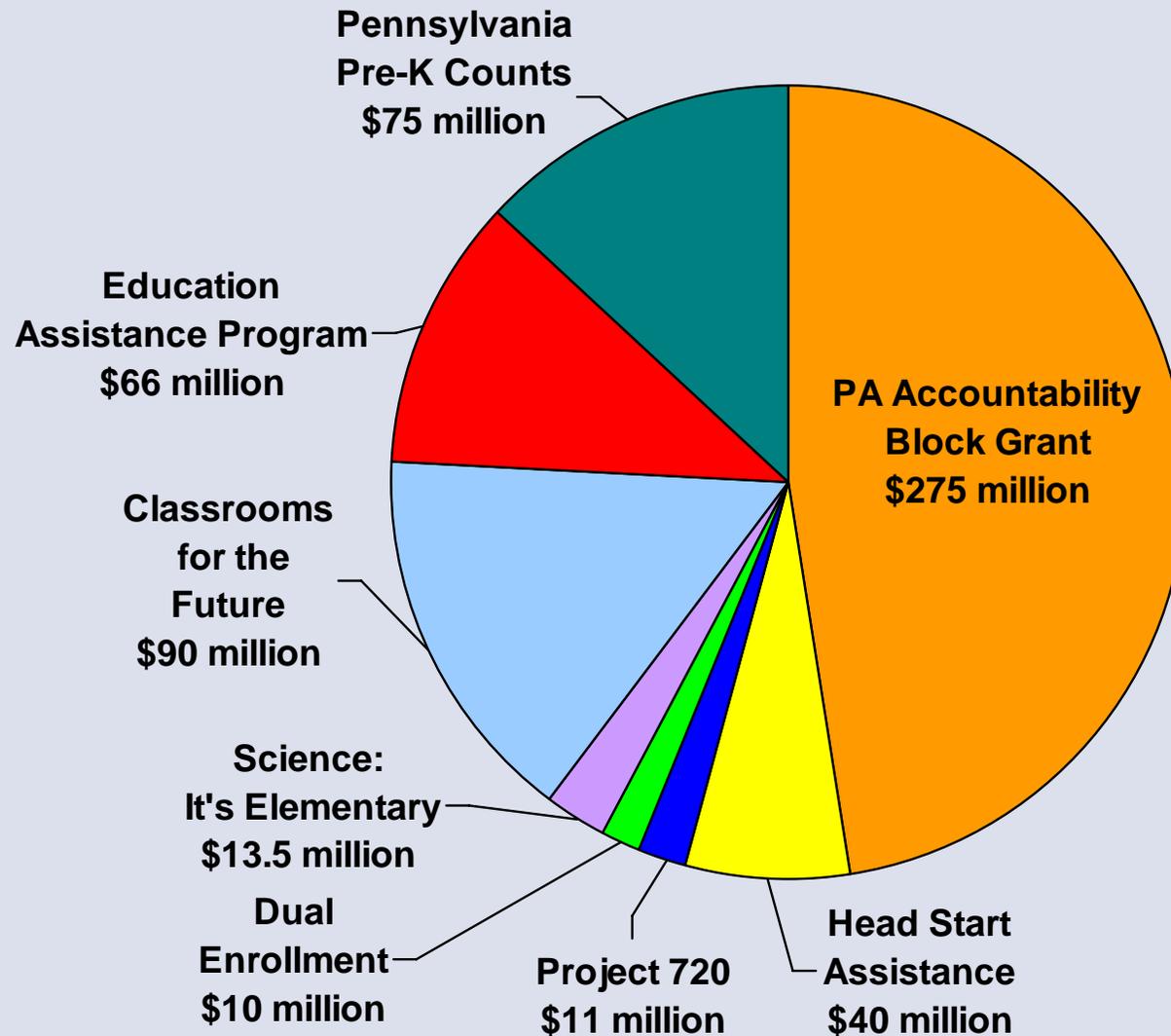
The 2007-08 enacted budget provides more than \$27.2 million in additional funding to increase the rigor of high school curricula.

- **Job Ready PA: \$10 million** for **dual enrollment** programs that let high school students earn college credit while they complete their graduation requirements.
- **Job Ready PA: \$11 million** to transform Pennsylvania's high schools through **Project 720**, the state's **high school improvement** initiative.
- **Reinvigorating College and Career Counseling: \$3 million** for school districts to **upgrade their career and counseling programs**.
- **Quality Leadership: \$2 million** to make school-leader accountability a reality through the **Pennsylvania Inspired Leadership System**.
- **Quality Teaching: \$1.2 million** to help 500 Pennsylvania teachers earn **National Board certification**.



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2007-08 Targeted Education Investments



The 2007-08 enacted budget provides nearly \$581 million in new targeted education investments designed to improve student achievement.

**Total:
\$581 Million**



Investing in Pennsylvania's Future

The 2007-08 enacted budget continues to build on Pennsylvania's accomplishments over the last four years by increasing funding for three initiatives that will make Pennsylvania a leader in readying our students for the jobs of the future while giving our high-tech businesses the employees they need to thrive.

- **\$13.5 million - Science: It's Elementary.** Provides hands-on learning equipment and intensive teacher training to elementary schools that commit to upgrading their science curriculum. Makes every Pennsylvania student a scientist in the classroom and gives school districts access to a proven science education strategy. More than 41,000 students in 70 new school districts will benefit.
- **\$90 million - Classrooms for the Future.** Makes every high school classroom in the commonwealth a high-tech center of learning. Through a multi-year initiative, every high school classroom in the four core subjects will have an Internet-equipped laptop computer on each student desk and multi-media technology at the teacher's fingertips. More than 350 schools will benefit.
- **\$7 million for technology professional development** for Pennsylvania teachers and school leaders.



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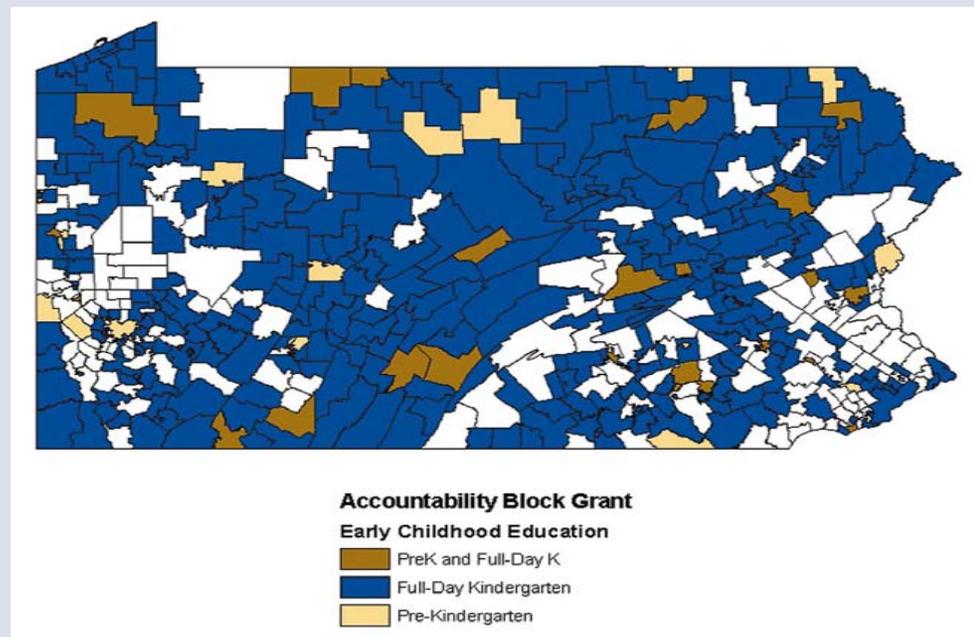
Investing in Pennsylvania's Future

Early Childhood Education Funding

Pennsylvania is moving from near-last among the 50 states to becoming a key investor in early childhood education. Significant investments will continue in 2007-08 – including \$75 million for the new PA Pre-K Counts Program, \$25 million for full-day kindergarten programs and \$40 million in funding for Head Start so that this proven program can continue to serve Pennsylvania's children. According to Kids Count, a project of the Annie E. Casey Foundation, Pennsylvania's state ranking in the percent of 3- to 5-year-olds enrolled in nursery school, pre-school or kindergarten increased from 29th to 9th from 2002 to 2005.

In 2005-06, with more than \$135 million in state funding for Head Start, preK and full-day kindergarten...

- 318 school districts funded full-day kindergarten with the Accountability Block Grant,
- 40 school districts funded quality pre-kindergarten with the Accountability Block Grant, and
- 18,165 children benefited from K-3 class size reduction.



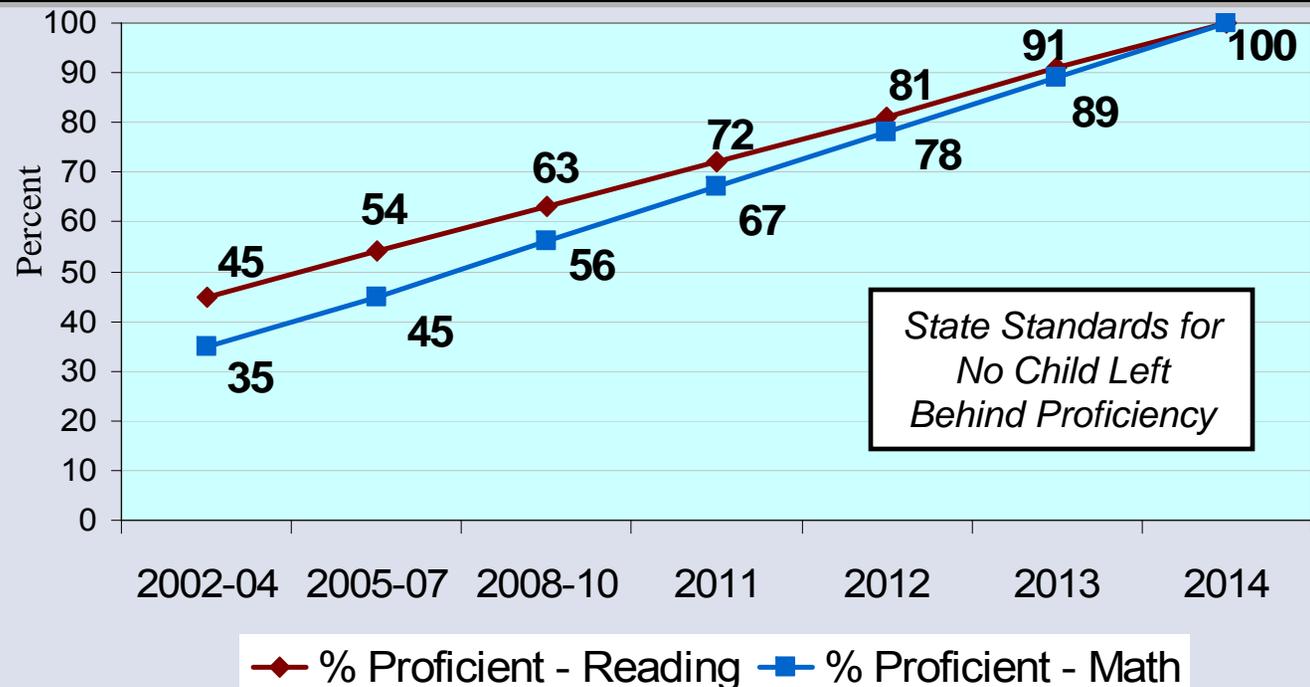


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No Child Left Behind Reading & Math Targets

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

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

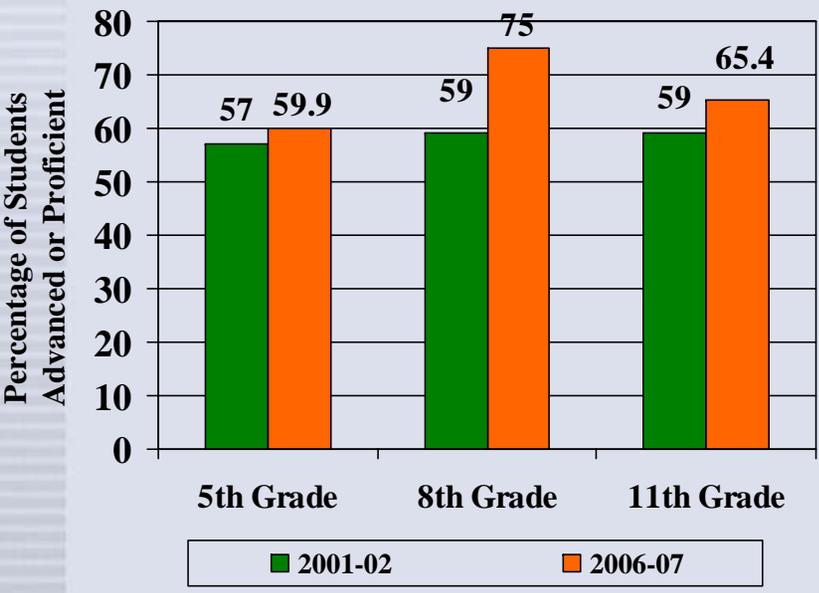




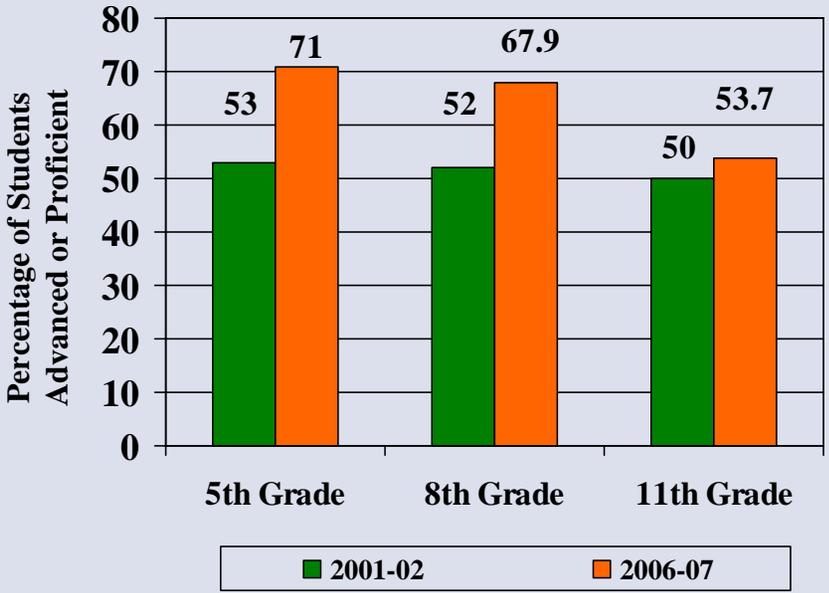
Student Achievement

Since 2002 students across Pennsylvania have made significant progress in achievement. There has been an increase in performance results across every grade level in both reading and math.

**Reading PSSA Results
2001-02 vs. 2006-07**



**Math PSSA Results
2001-02 vs. 2006-07**



PSSA: Pennsylvania System of School Assessment



2006-07 Adequate Yearly Progress 2006-07 PA System of School Assessment

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

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



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Higher Education in the 2007-08 Budget

Pennsylvania is making significant investments in higher education funding in the 2007-08 enacted budget.

Higher Education funding includes:	Total 2007-08 State Funding
3.4% increase in total funding for the Community Colleges . .	\$ 274.6 M
3.4% operating increase for State System of Higher Education	\$ 504.2 M
2.0% operating increases for the State-Related Universities	
Penn State University	\$ 334.2 M
University of Pittsburgh	168.2 M
Temple University	172.9 M
Lincoln University	<u>13.8 M</u>
Total – State-Related Universities	\$ 689.1 M
Non-State-Related Universities	\$ 89.4 M
PA Higher Education Assistance Agency	\$ 452.0 M

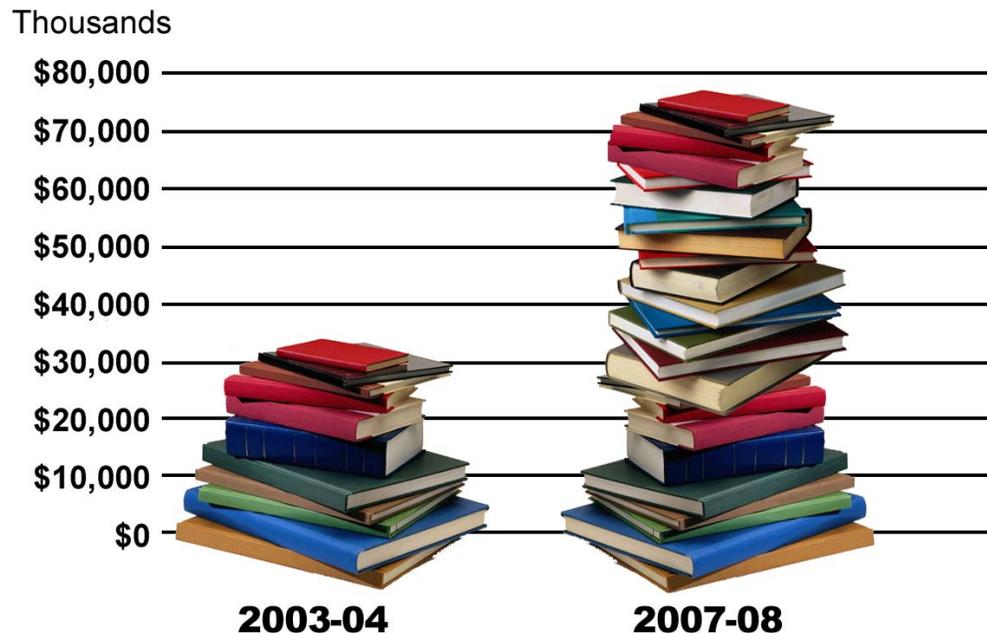
Total Higher Education Funding: \$2.07 Billion.



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Historic Level of Support for Public Libraries in the 2007-08 Enacted Budget

Support for Public Libraries



Building a knowledge society demands a strong investment in our public libraries. This budget continues to increase library funding, bringing the state subsidy for local libraries to \$75.8 million. This increase reaffirms Pennsylvania's current standing as a national leader in state funding for libraries.



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2007-08 Budget Overview

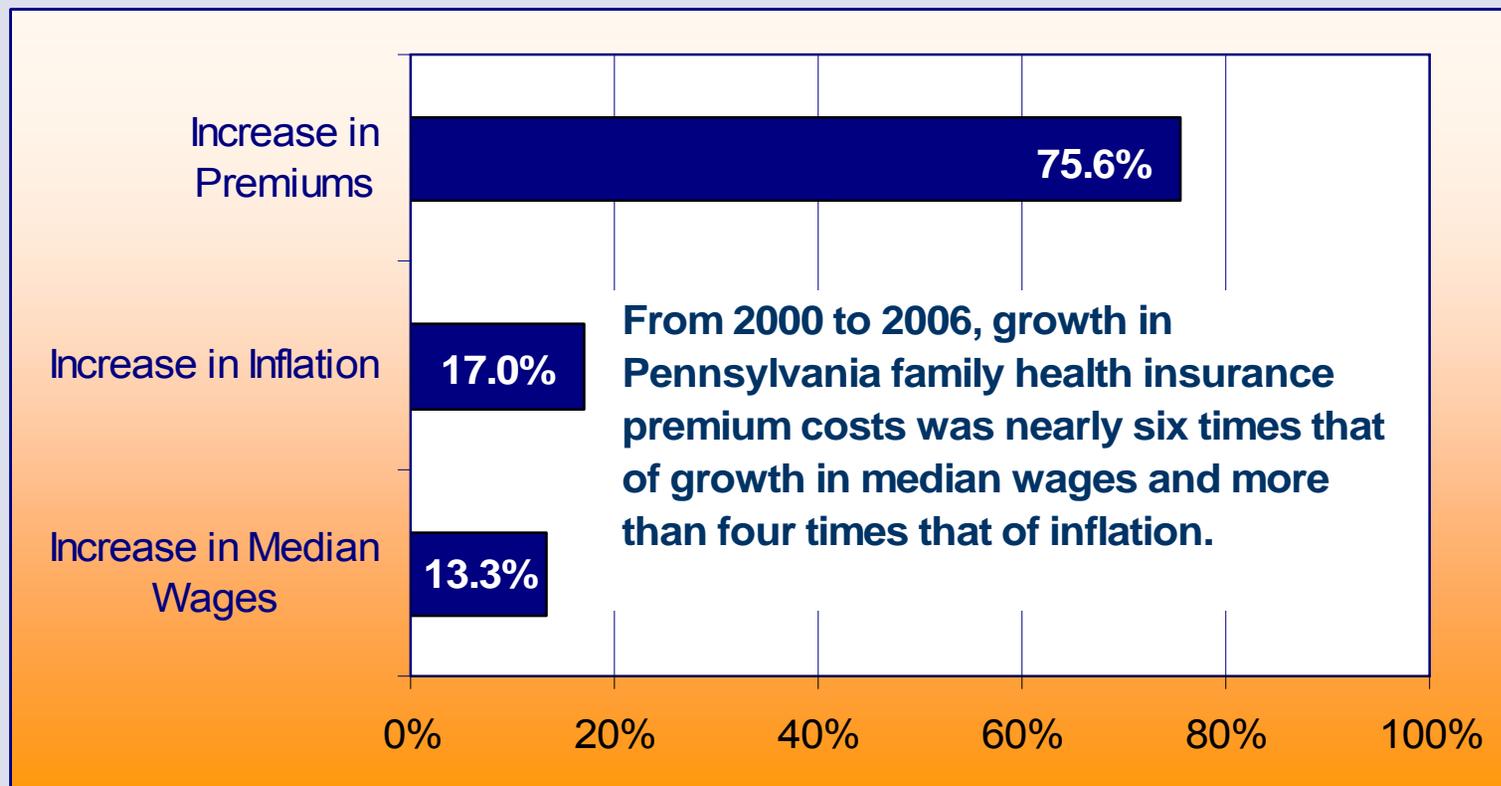
Prescription for Pennsylvania



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Prescription for Pennsylvania *The Need for Action*

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





Prescription for Pennsylvania Initiatives

In January 2007, Governor Rendell unveiled a bold, sweeping “Prescription for Pennsylvania” to increase access to affordable health care coverage for all Pennsylvanians, improve the quality of care delivered throughout the commonwealth, and help bring health care costs under control for employers and employees. While Cover All Pennsylvanians, the Governor’s plan to reduce PA’s uninsured population, has not yet been addressed by the legislature, the 2007-08 budget includes a total of \$17.5 million in state and federal funds to implement several key components of the Rx for PA plan.

- **\$6.5 million** – to increase the availability of school breakfasts and other nutritious foods for students.
- **\$4.0 million** - to develop standardized identification and reporting of hospital-acquired infections by hospitals and provide training in infection-control best practices.
- **\$2.9 million** - to increase access to primary health care in underserved rural areas.
- **\$2.2 million** - to implement a comprehensive, evidence-based chronic-care-management model for persons with chronic disease.
- **\$700,000** – to manage and coordinate Prescription for Pennsylvania implementation.



Prescription for Pennsylvania Initiatives (cont'd)

- **\$500,000** - to increase the number of health professionals equipped to address the needs of racial and ethnic minorities.
- **\$500,000** - to enhance the delivery of health messages through an integrated and coordinated approach to health literacy.
- **\$268,000** - to expand premium rate review authority to all insurers providing coverage in the small-employer market.
- **\$30,000** - to assist elementary school teachers with integrating healthy living concepts into lesson plans.



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Prescription for Pennsylvania: Additional Reforms

In addition to the initiatives funded in the 2007-08 budget, two significant pieces of legislation have been enacted and two executive orders have been issued, all designed to improve the quality, accessibility and affordability of health care in Pennsylvania. Additional legislation will be pursued this fall, including small group and individual insurance reform.

Enacted Legislation

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

Executive Orders

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

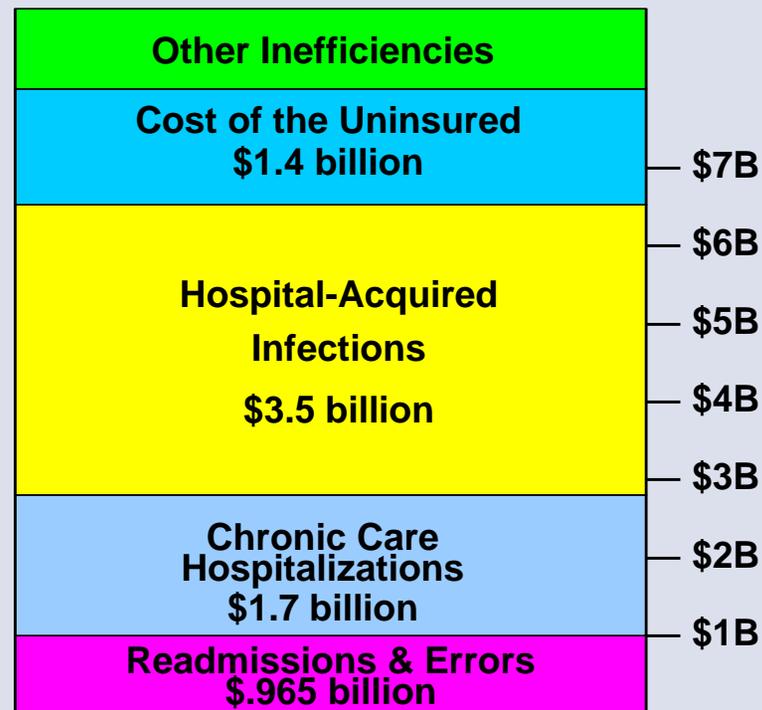


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Prescription for Pennsylvania

The Cost of Inaction

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





2007-08 Budget Overview

Caring for Pennsylvanians in Need



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

- **No cuts will be made to health services and social services provided to children.**
- **No one currently receiving health care services from the commonwealth will lose eligibility.**
- **Pennsylvania will be able to meet increases in demand for services to low-income children, children at risk due to neglect and abuse, chronically ill adults, uninsured working families, disabled individuals, the infirm elderly and other Pennsylvanians in need.**



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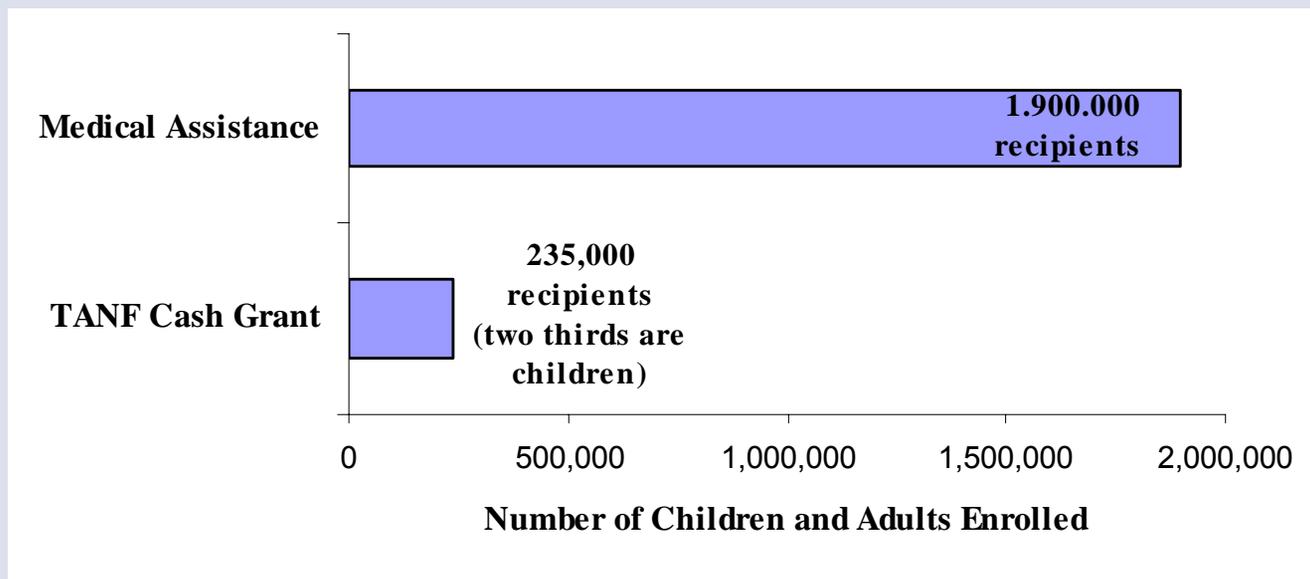
The Commonwealth Provides Vital Services to More Than 3 Million People

PROGRAM	People Served 2006-07	People Served 2007-08
Medical Assistance	1,905,529	1,910,984
Cash Assistance (TANF, General Assistance and State Blind Pension)	264,407	234,535
Child Welfare System	286,847	290,625
Child Care	221,186	221,585
Mental Retardation and Autism Services	45,965	49,485
Children's Health Insurance Program	158,711	174,531
PACE Plus Medicare (avg. enrollments)	325,735	357,725



How Many Pennsylvanians Are “on Welfare”?

The claim that “Pennsylvania has 1.9 million welfare recipients” is wrong and confuses medical assistance (health care) with cash assistance.



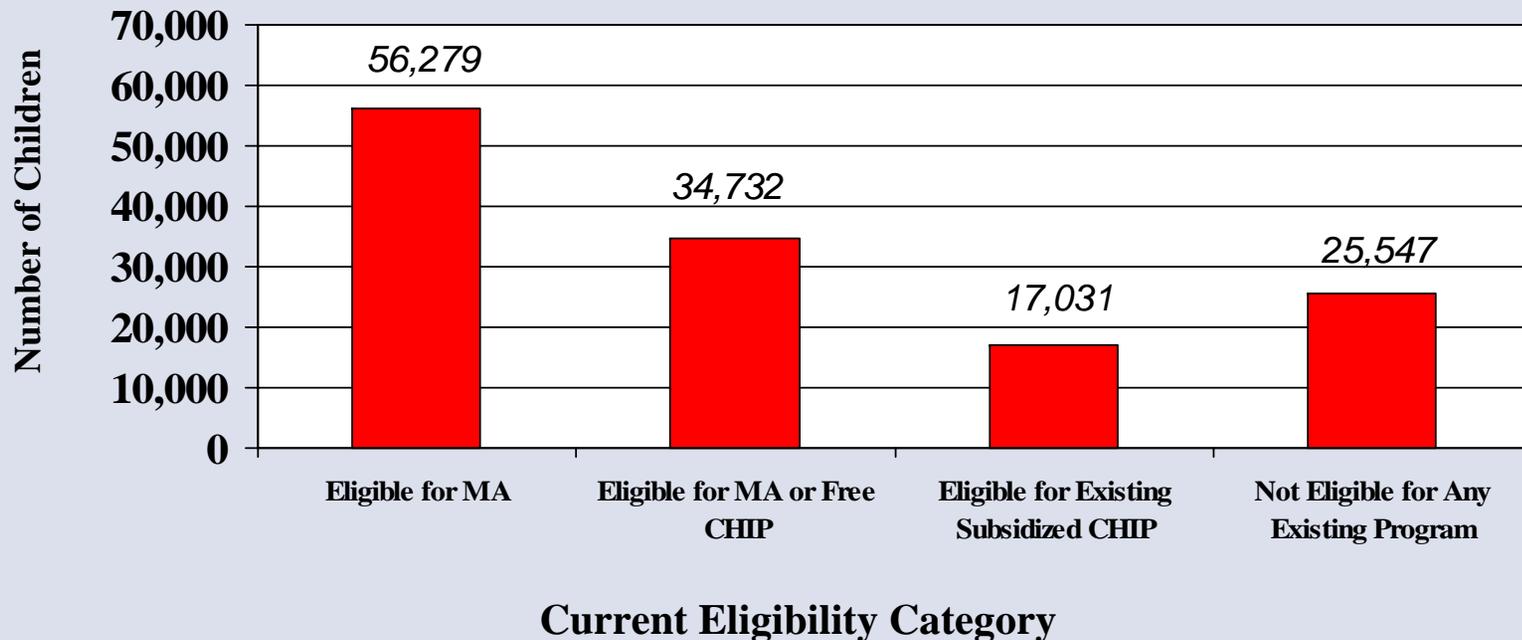
TANF: Temporary Assistance for Needy Families



Cover All Kids

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

Pennsylvania's Uninsured Children





Cover All Kids: The Basics

Cover All Kids guarantees access to affordable, comprehensive health care coverage for all uninsured children in Pennsylvania. In 2007-08 Cover All Kids will insure more than 21,000 children at a cost of \$32.7 million in state and federal funds.

Cover All Kids:

- Provides comprehensive health care coverage, including visits to doctors, hospitalization, prescription drugs, mental health and substance abuse services, vision, dental and home health care.
- Subsidizes coverage for children in families whose annual income does not exceed 300 percent of the federal poverty level (\$62,000 for a family of four). Family premiums will range, on average, between \$38 and \$60 per month per child.
- Offers at-cost coverage for children in families whose income exceeds 300 percent of poverty (on average, \$150 per month per child).



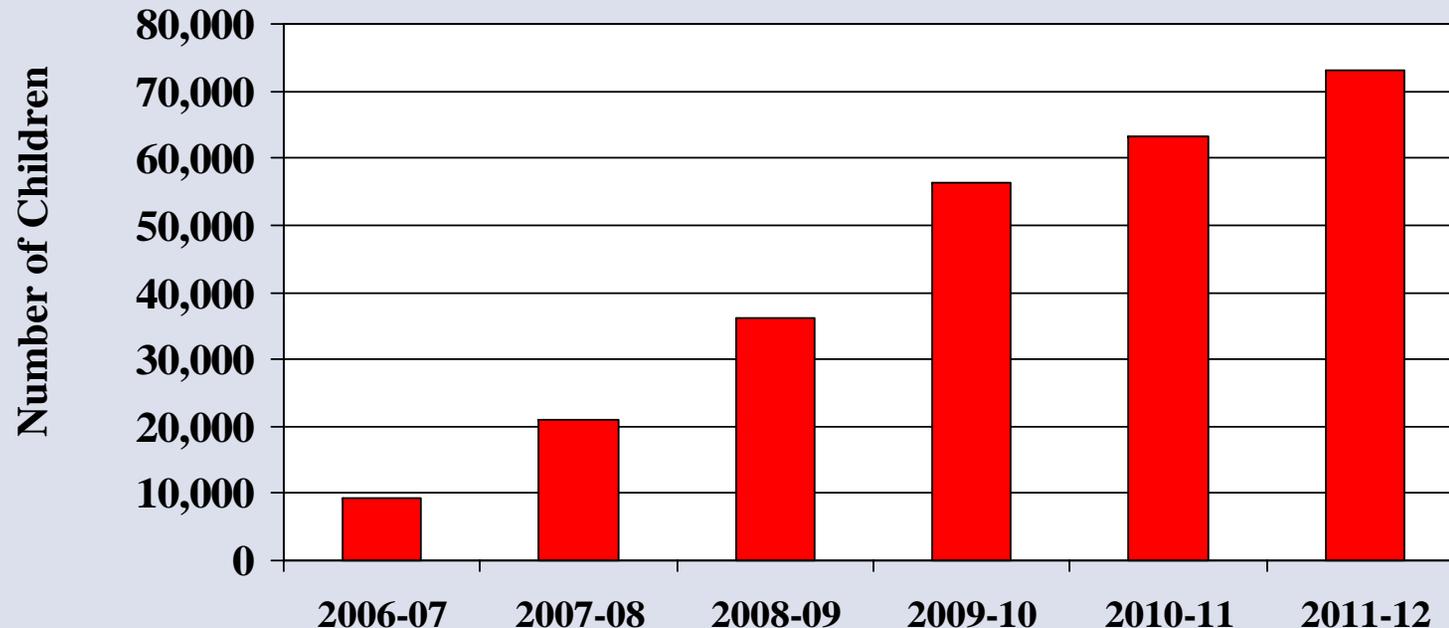
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Cover All Kids: Projected Program Growth

The 2007-08 budget projects that Cover All Kids will enroll more than 21,000 uninsured children in 2007-08, growing to more than 73,000 uninsured children by 2011-12. These increases will be achieved through enhanced outreach efforts, federally approved increases in income eligibility for subsidized coverage and new opportunities for higher-income families to purchase health care coverage at cost.

Cover All Kids

Additional Insured Children





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TANF Work Participation Trends Adults Receiving Cash Assistance

*Pennsylvania provides cash assistance, job training and child care for low-income adults transitioning to work, using federal funds provided under the Temporary Assistance for Needy Families program. The federal Deficit Reduction Act of 2005 requires states to meet a 50 percent work participation rate for TANF recipients in federal fiscal year 2007. **Record numbers of low-income Pennsylvanians are meeting federal work requirements, and Pennsylvania achieved a 52 percent work participation rate in July.** More than 10,000 individuals receiving cash assistance are working each month while others engage in job preparation and job search, vocational educational training and work experience programs. The 2007-08 enacted budget includes \$38 million for continued child care and support services to assist clients in meeting the work requirements.*

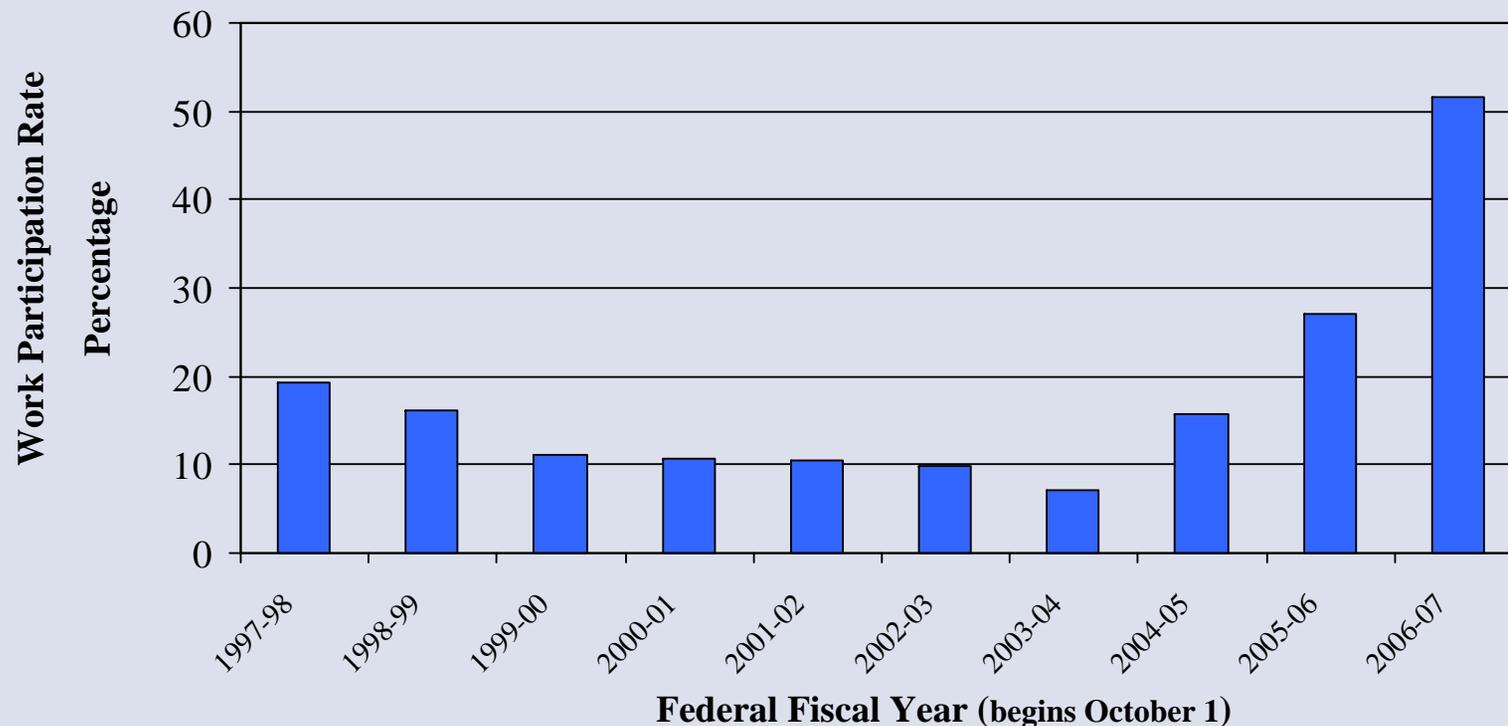
	Families Required to Participate	Families Fully Participating	Federal Work Participation Rate
January 2006	64,733	9,900	15%
July 2006	39,206	12,552	32%
January 2007	30,538	14,748	48%
July 2007	24,700	12,737	52%



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TANF Work Participation Rates Climb

Low-income Pennsylvania families receiving cash assistance are experiencing unprecedented success moving from welfare to work, helping Pennsylvania achieve a 52% work participation rate in July 2007. This result marked Pennsylvania's highest participation level since the federal Temporary Assistance for Needy Families program was enacted in 1996 and was more than triple the rate achieved in 2004-05. When combined with a federal "caseload reduction credit" that Pennsylvania will receive for reducing the cash assistance caseload, the state's TANF work participation rate will exceed the federally required 50% in 2006-07.



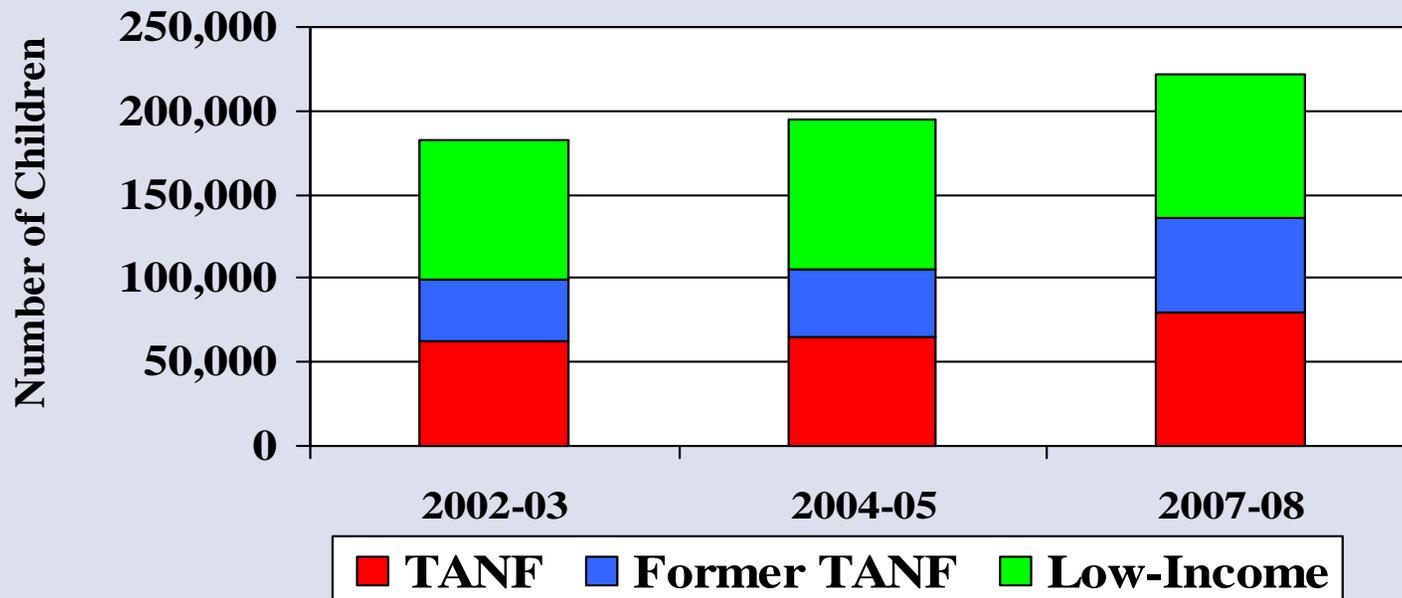


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Subsidized Child Care Services

Improving the quality and availability of early childhood programs has been a priority for the Rendell administration, and affordable child care is an essential component of the commonwealth's efforts to move families from welfare to work. Since 2002-03, the number of children participating in subsidized child care has grown from 182,102 to 221,585 – an increase of 22 percent – and the quality of child care has increased significantly through the Keystone STARS program. The enacted budget includes an increase of \$29.8 million to ensure that quality school-readiness services continue to be available through the child care system in 2007-08.

Pennsylvania Children in Subsidized Child Care



TANF = Temporary Assistance for Needy Families



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2007-08 Budget Overview

Medical Assistance



Medical Assistance in Pennsylvania

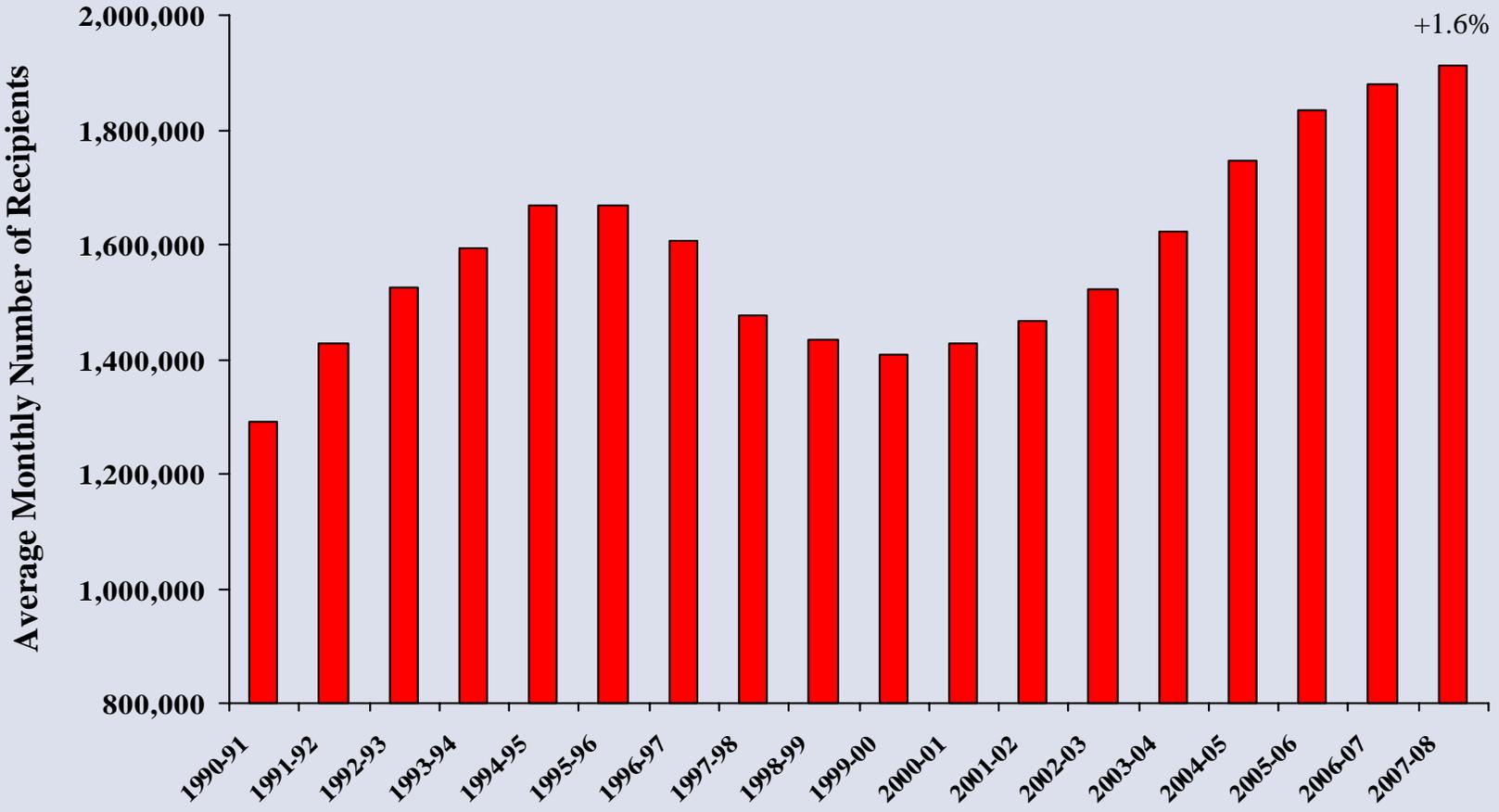
- Provides medical care for low-income individuals
 - Children, pregnant women, the elderly and people with disabilities
 - Currently serves more than 1.9 million people
- Comprehensive benefits package
 - inpatient and outpatient services
 - long-term care
 - prescription drugs
 - limited cost sharing
- Provider network includes 68,000 providers
- Total annual expenditures are \$14.6 billion
- State-administered but jointly funded with federal and state funds
- State funding from the General Fund, Lottery Fund and Tobacco Settlement Fund



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MA in PA - Serving More People in Need

The Medical Assistance program is projected to provide services to an additional 30,137 clients during 2007-08, for a total of 1.91 million clients; however, the number of adults enrolled in the program will decrease by nearly 19,000. **All the growth in the MA caseload results from serving additional elderly people, persons with disabilities, chronically ill adults and children.**

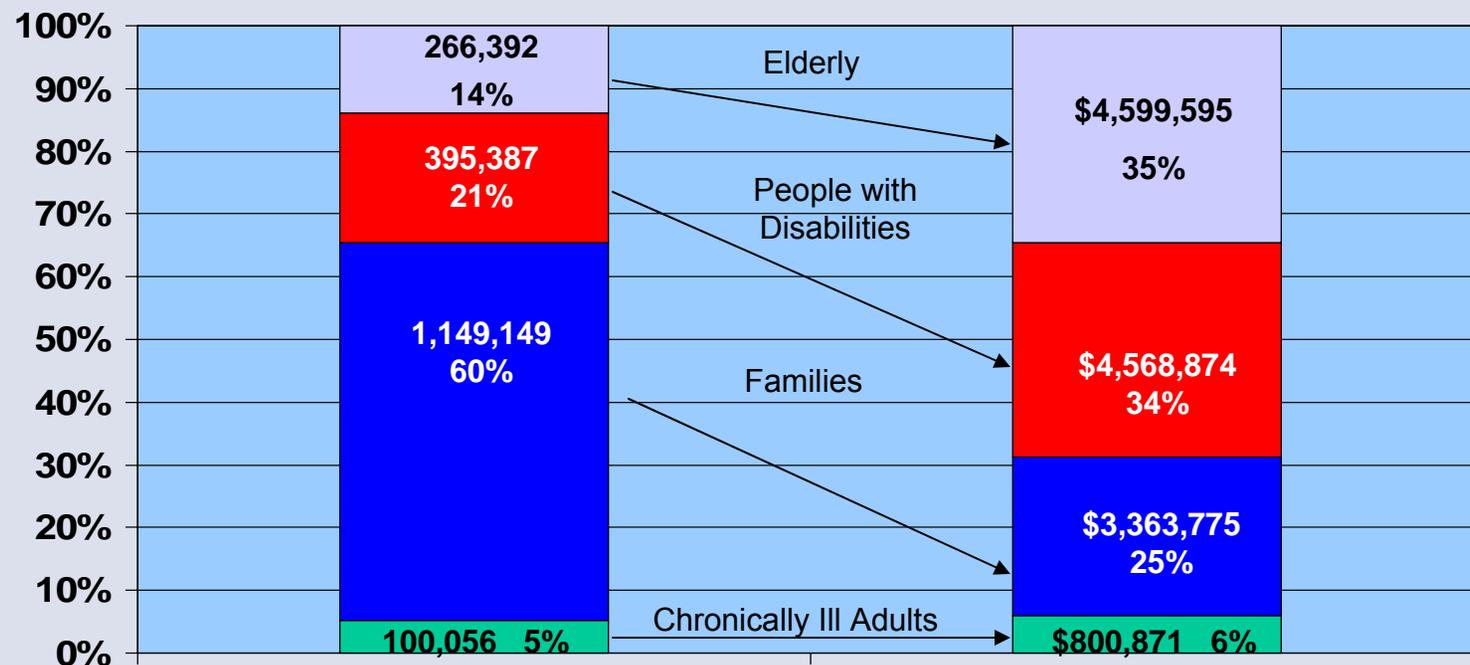




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Seniors and People with Disabilities Use the Greatest Share of Medical Assistance Resources

**Medical Assistance Recipients by Category and Cost
2007-08**



**Number and Percent of People per
Category**

Amount Spent per Category
(Dollar Amounts in Thousands)

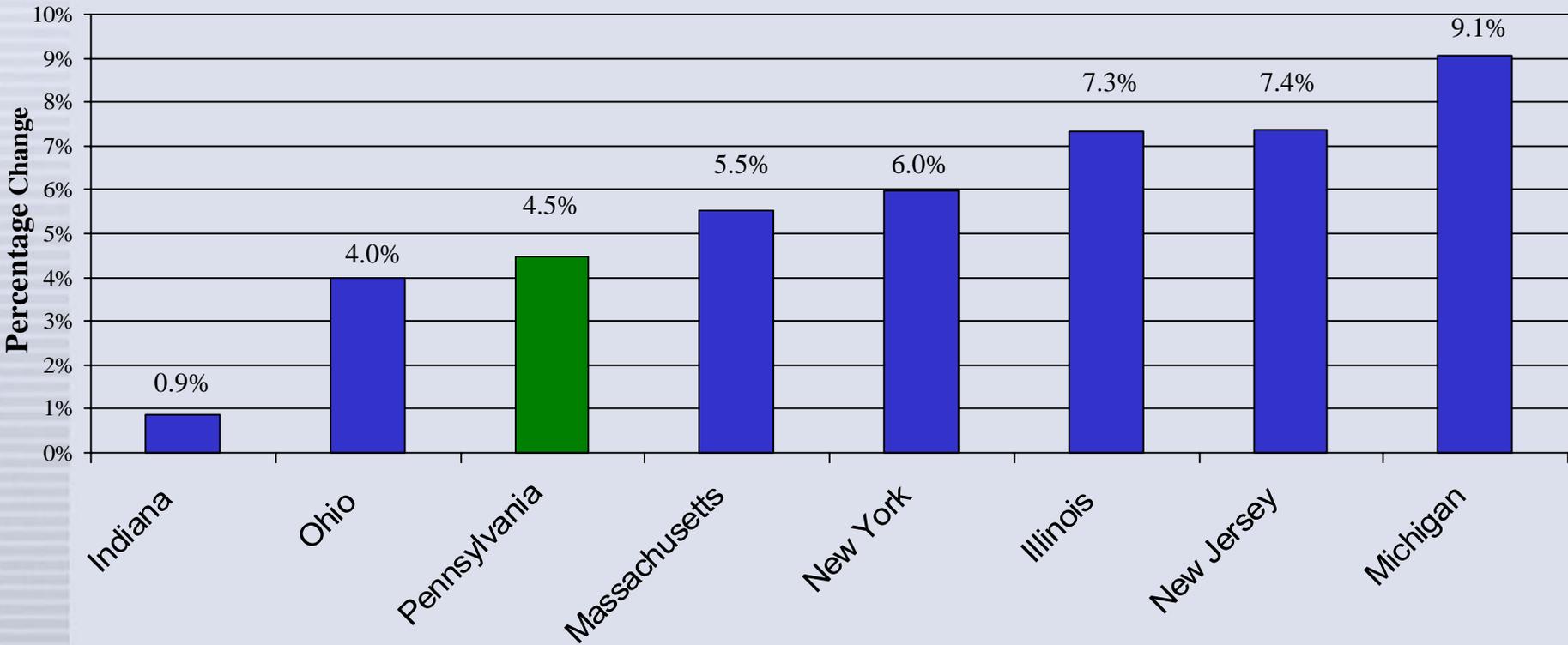


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Medicaid Enrollment Trends

Pennsylvania versus Other Large Industrial States (2004 to 2005)

From 2004 to 2005, most of the large industrial states experienced higher rates of growth in Medicaid enrollments than Pennsylvania, with Michigan seeing an increase of more than 9 percent. Pennsylvania's increase was 4.5 percent, less than the growth in Massachusetts, New York, Illinois and New Jersey.



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

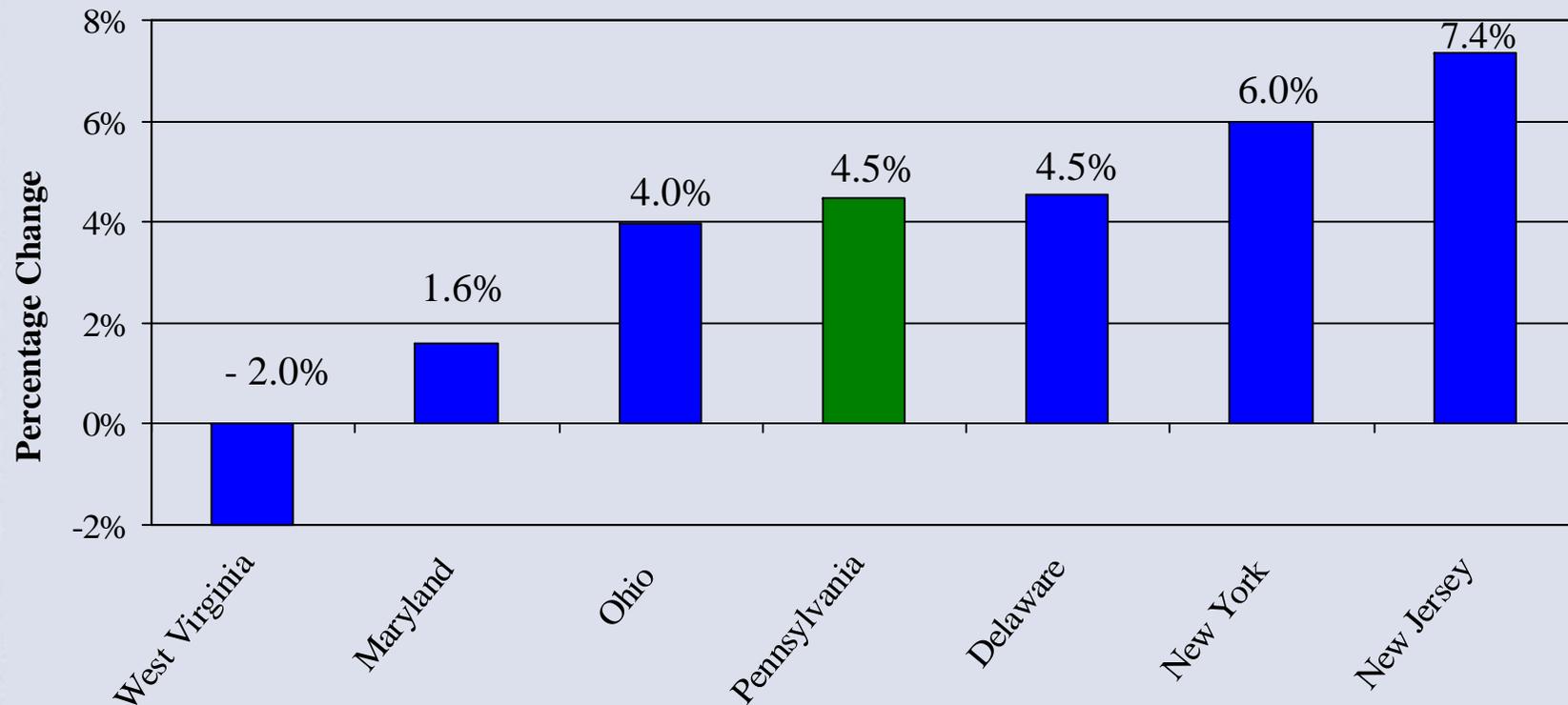


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Medicaid Enrollment Trends

Pennsylvania versus Surrounding States (2004 to 2005)

From 2004 to 2005, Pennsylvania's Medicaid enrollment growth was in the middle of the pack compared to neighboring states. Three neighboring states had higher growth rates, and three states had lower growth rates than the commonwealth.



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



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2007-08 MA Cost-Containment Initiatives

Building upon prior-year initiatives that saved \$337.6 million by reforming the commonwealth's safety net and increasing the efficiency and integrity of the Medical Assistance program, the 2007-08 enacted budget includes cost-containment measures estimated to save an additional \$68.5 million in state funds, freeing up these funds to continue vital programs that serve Pennsylvanians in need.

Total cost containment from 2005-06 through 2007-08 is projected to be \$406.1 million.

Initiatives	Savings In Millions
Implement managed care performance incentives	\$ 38.6
Enhance third-party liability initiatives	\$ 13.8
Deficit Reduction Act pharmacy savings	\$ 16.1
Total Savings	\$68.5



Managing Medicaid is a National Problem

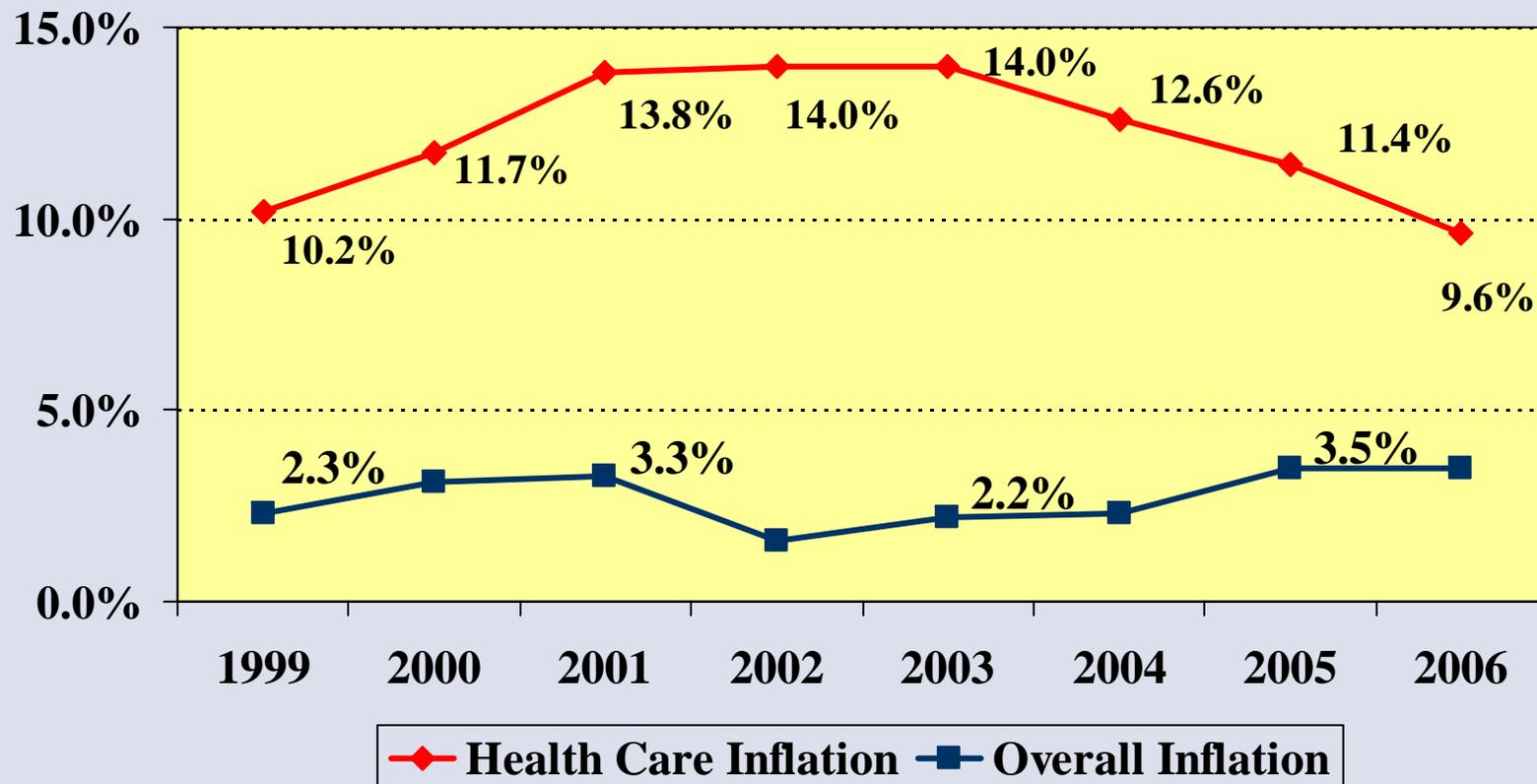
- Pennsylvania is not alone in its struggle to cope with growing costs for the federal-state Medicaid program. Most states have experienced significant increases in caseloads and costs over the past several years.
- Recent trends suggest that caseload growth is beginning to slow.
- Evidence suggests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



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

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

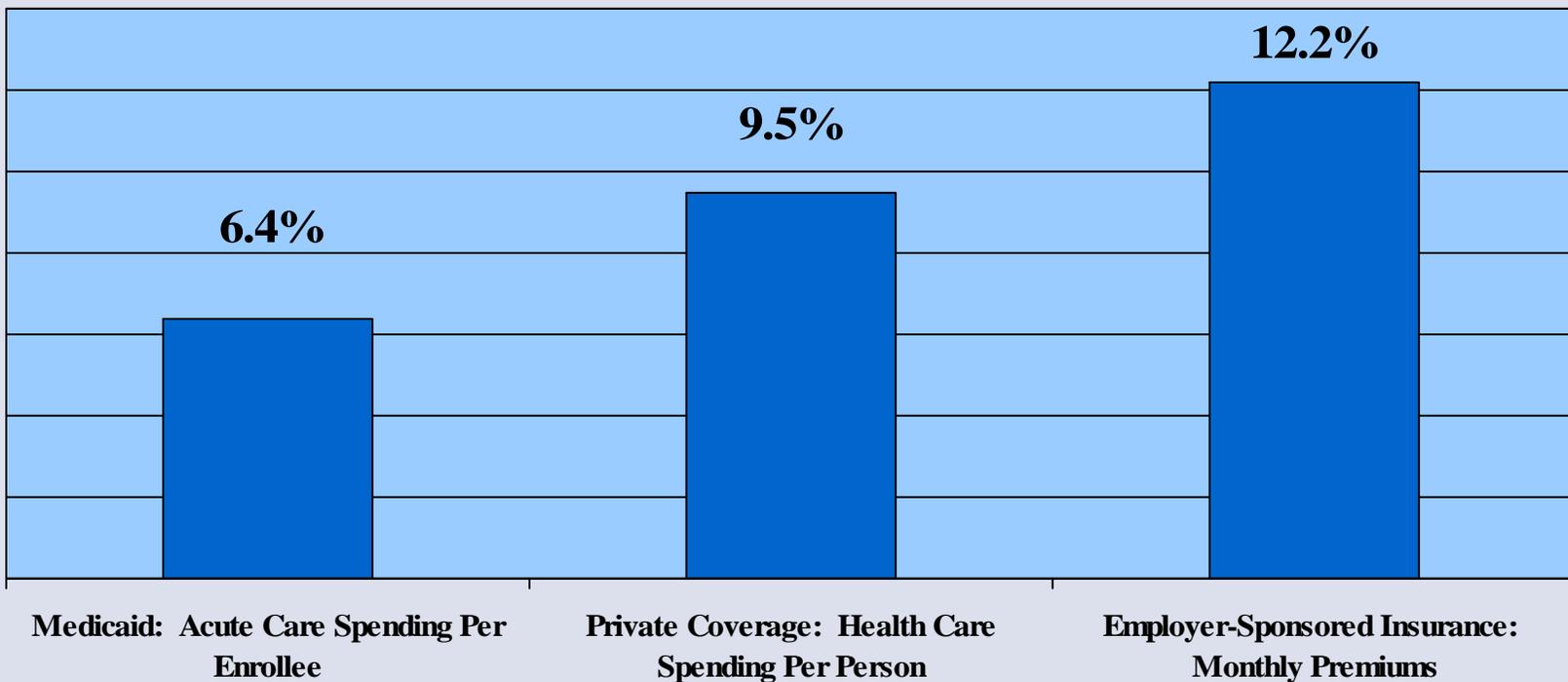


Health care composite inflation rates developed from data provided by Buck Consultants.



States Are Managing MA Costs But Growth is Still High

Per Capita Medicaid Spending Growth in the U.S. Compares Favorably to Growth in Private Health Care Spending 2000 - 2004



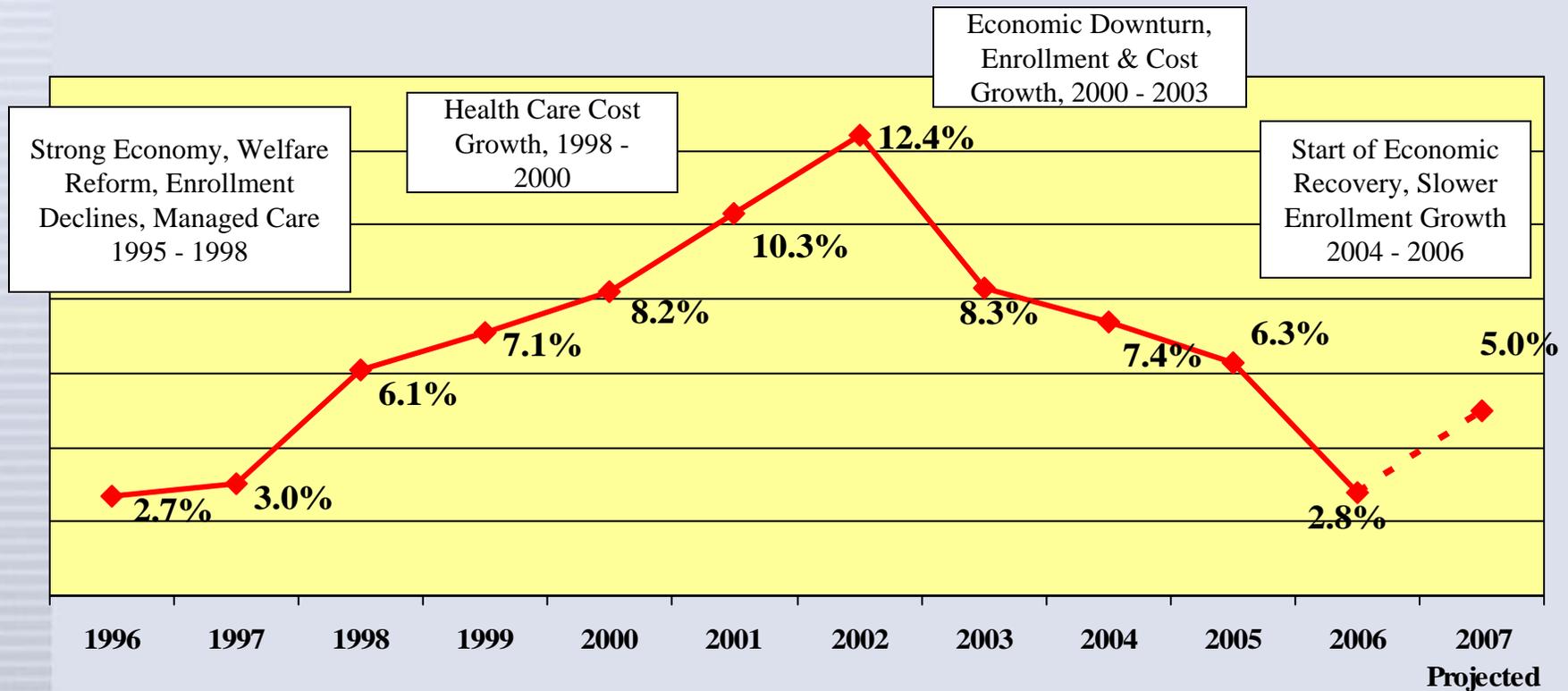
SOURCE: Kaiser Commission on Medicaid and the Uninsured. "Results from a 50-State Medicaid Budget Survey, State Fiscal Years 2006 and 2007," October 2006.



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National Medicaid Spending Growth, 1996 – 2007

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



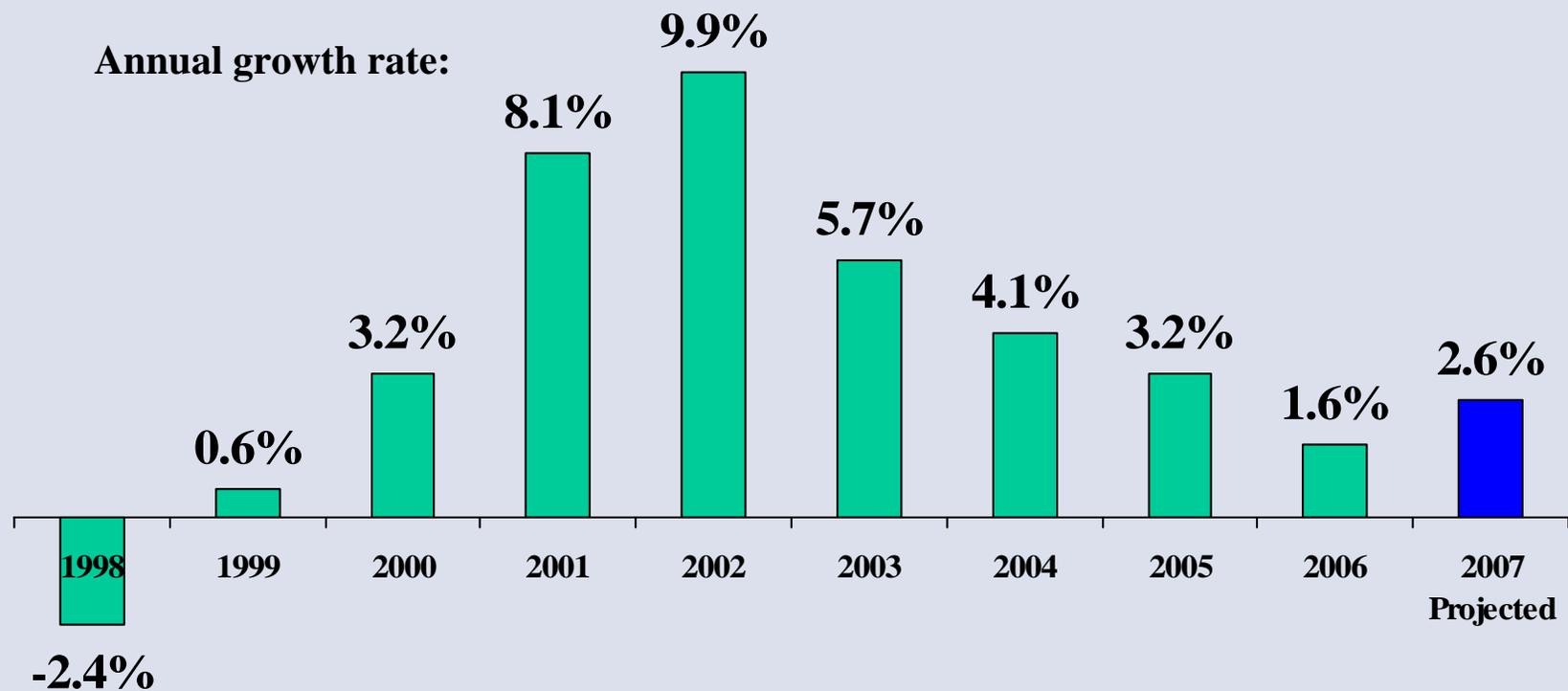
Note: Estimates in State Fiscal Year. Preliminary estimate for 2007.

SOURCE: Kaiser Commission on Medicaid and the Uninsured. "Results from a 50-State Medicaid Budget Survey, State Fiscal Years 2006 and 2007" October 2006.



Percent Change in U.S. Medicaid Enrollment

Enrollment Growth Down from 2002 Peak But Rolls Are Still Growing



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

SOURCE: Kaiser Commission on Medicaid and the Uninsured. "Results from a 50-State Medicaid Budget Survey, State Fiscal Years 2006 and 2007," October 2006.



2007-08 Budget Overview

PACE Plus Medicare

Comprehensive Prescription Drug Coverage for Older Pennsylvanians



PACE Plus Medicare Prescription Drug Program

Integrating PACE/PACENET Benefits with Medicare Part D

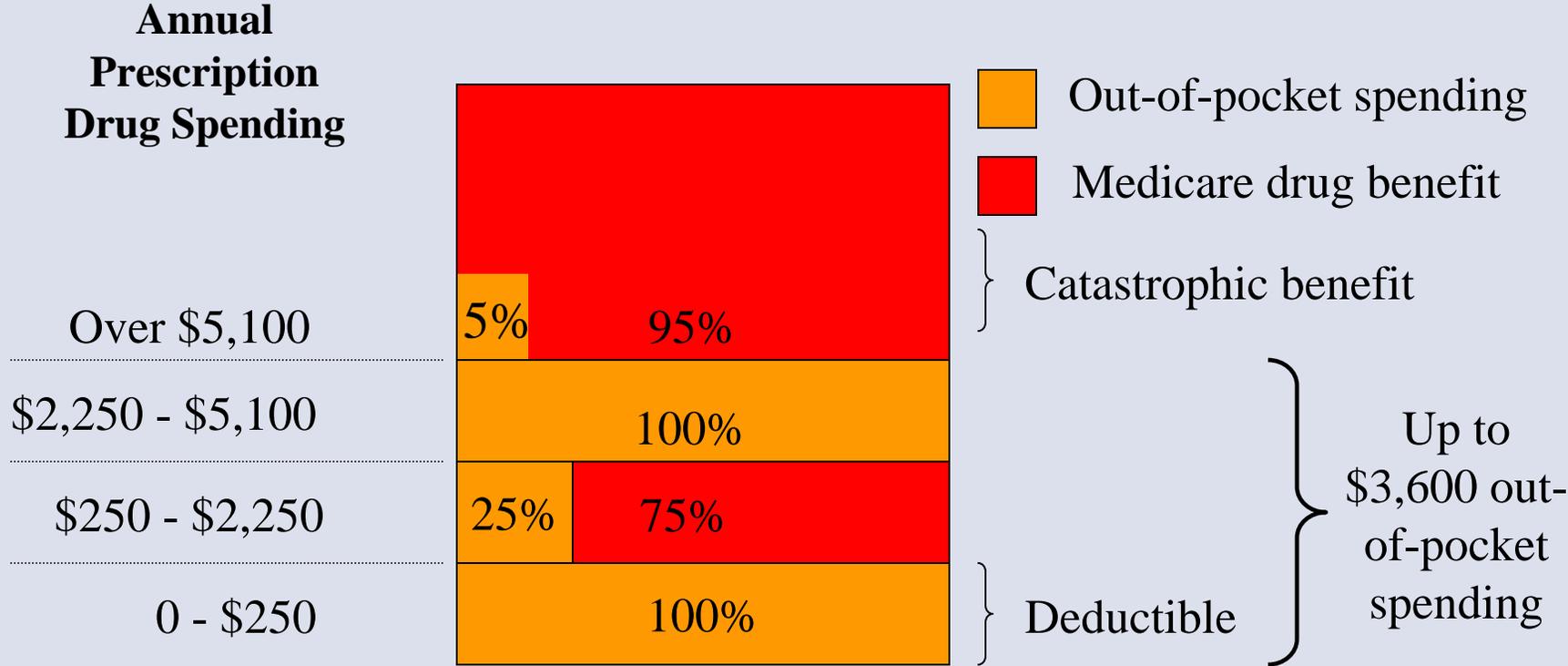
The new PACE Plus Medicare program “wraps around” the federal program and fills the gaps in coverage, including when PACE/PACENET participants reach the so-called “doughnut hole” in the Medicare Part D coverage.

- ✓ In July 2006, the Pennsylvania General Assembly passed and Governor Rendell signed legislation establishing PACE Plus Medicare, which enhances the commonwealth’s PACE and PACENET programs to provide seamless pharmaceutical coverage with the new Medicare Part D prescription benefit.
- ✓ To assist in coordinating benefits, PACE/PACENET acts as the authorized representative for its cardholders to assess eligibility and apply for low-income subsidies, to select and enroll in Part D plans that best match cardholders’ prescription and pharmacy profiles, and to undertake appeals from Part D plans’ denials of coverage or determination of non-preferred status for particular drugs.
- ✓ PACE Plus Medicare began automatic enrollment on September 1, 2006, for PACE/PACENET cardholders in Medicare Part D. As of January 2007, 76 percent (239,179) of the PACE/PACENET cardholders were enrolled in a Part D plan.
- ✓ In 2007, seniors have the option of selecting from 11 plans offered by nine companies.



Medicare Part D Prescription Drug Program

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



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



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PACE Plus Medicare Wraps Seamlessly Around the Medicare Part D Benefit

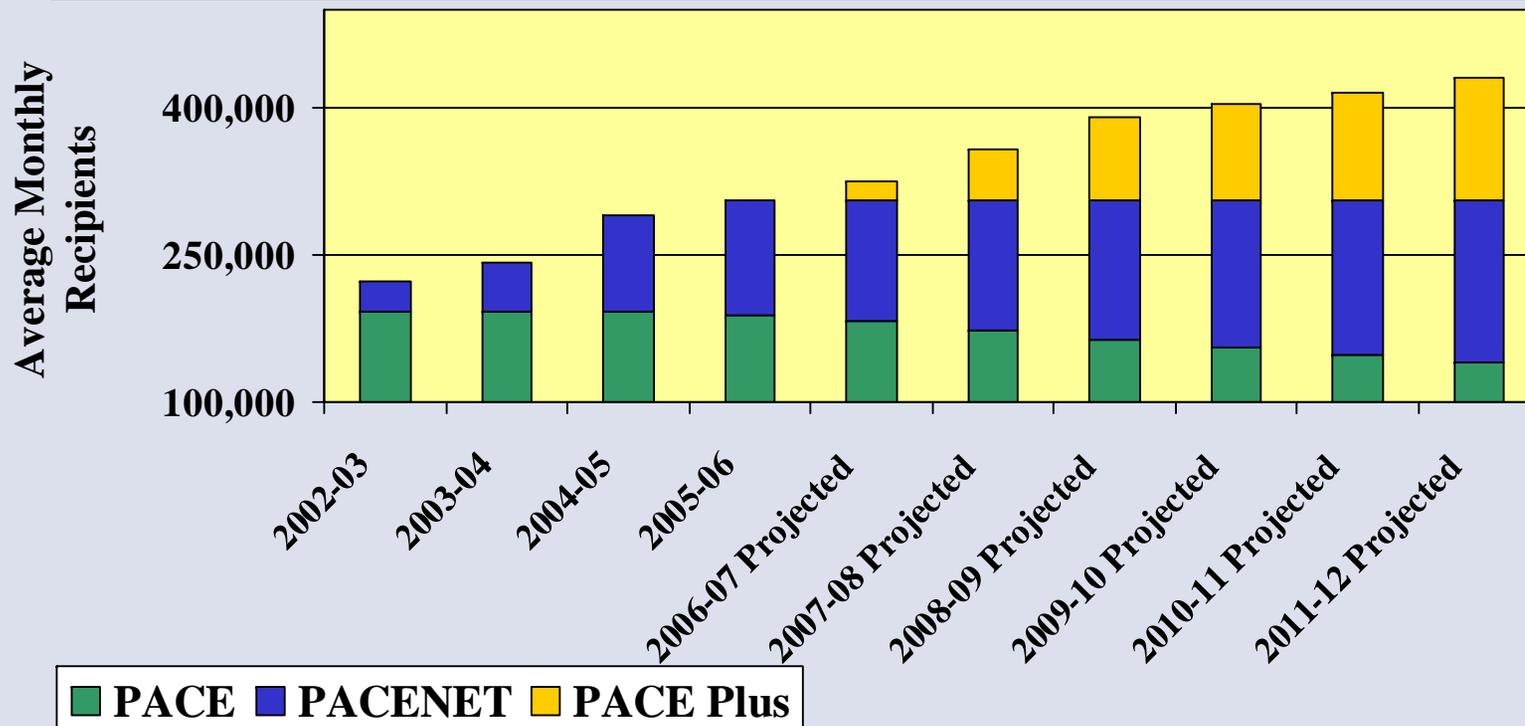
Costs	PACE	PACENET
	<i>The state:</i>	<i>The state:</i>
Premiums	Pays the cost of the monthly premium.	Eliminates the \$40 per month PACENET deductible. Consumers will pay the premium of the Medicare Part D plan in which they are enrolled.
Deductibles	Pays for deductibles except program co-pays.	Pays for deductibles except program co-pays.
Drug Coverage	Pays for drugs excluded under federal law and those not covered under a plan's formulary.	Pays for drugs excluded under federal law and those not covered under a plan's formulary.
Co-payments	Pays co-pay and co-insurance differentials in excess of the PACE co-pays (\$6 for generics and \$9 for brands).	Pays co-pay and co-insurance differentials in excess of the PACENET co-pays (\$8 for generics and \$15 for brands).
Gap Coverage	Covers the gap.	Covers the gap.
Catastrophic Coverage	Pays for drugs excluded under federal law and those not covered under a plan's formulary when the drug costs exceed \$5,100.	Pays for drugs excluded under federal law and those not covered under a plan's formulary when the drug costs exceed \$5,100.



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PACE Plus Medicare Pharmaceutical Assistance Program Enrollment

*PACE Plus Medicare provides seamless pharmaceutical benefits to PACE/PACENET enrollees in coordination with the federal Medicare prescription drug program. The 2007-08 enacted budget provides funding to extend PACE/PACENET coverage to an additional 31,990 seniors currently eligible for, but not enrolled in, PACE/PACENET, assisting them with coverage gaps in the federal Medicare prescription drug program. **The 2007-08 total of 357,725 is a significant increase in enrollment since the end of 2002, when 218,900 Pennsylvania seniors were being served.***





2007-08 Budget Overview

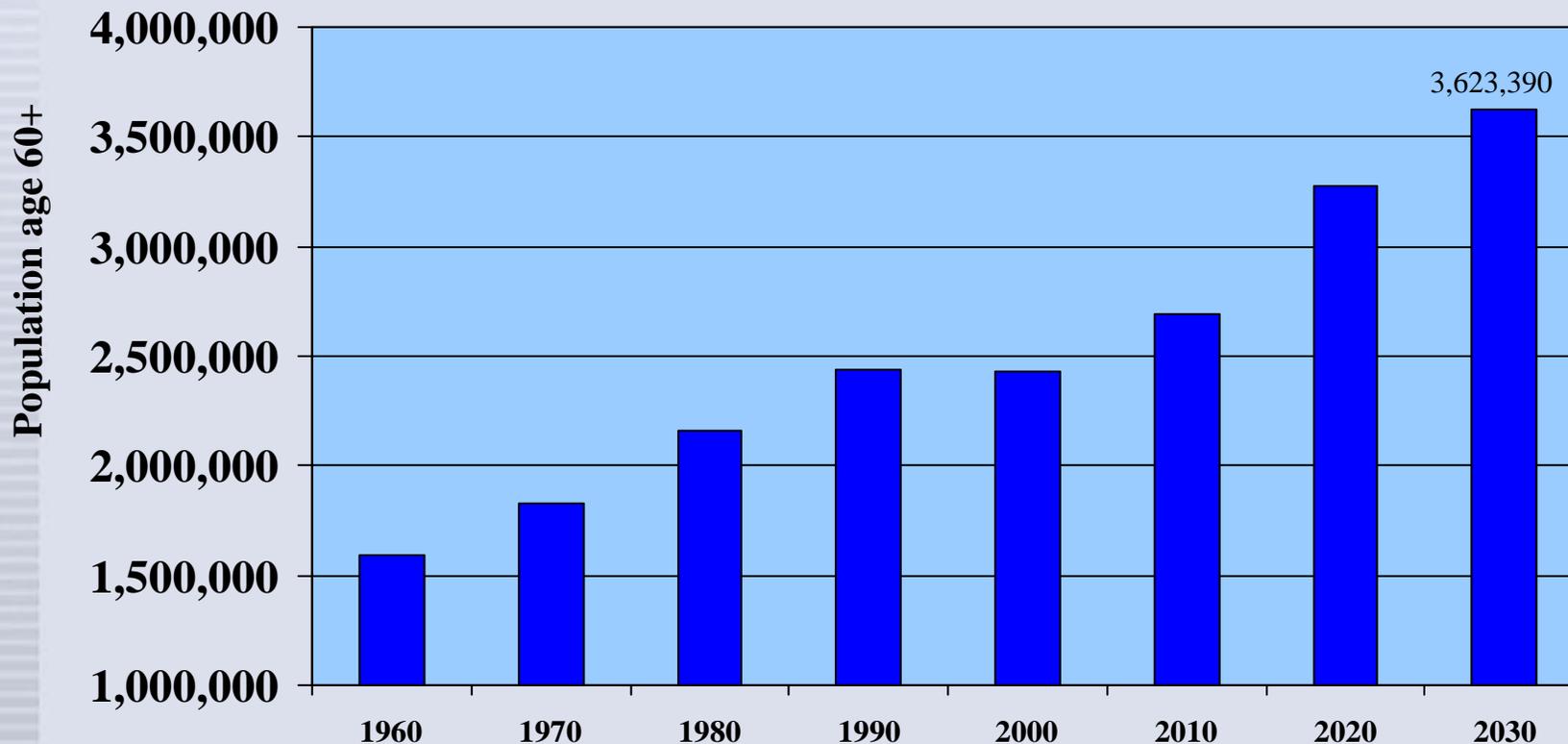
Long-Term Living



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Expected Growth of 60+ Population: 10-year Changes from 1960 to 2030

The "Baby Boomer" generation began to turn age 60 in 2006. By the year 2020, one in every four Pennsylvanians will be age 60 or older. Providing services for the rapidly growing number of seniors, especially those 85 and older, will present a major challenge for the commonwealth in the coming years.





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The Commonwealth's Plan for Long-Term Living

The Long-Term Living Council, established by Governor Rendell in 2005, has developed a plan for the future of Medical Assistance long-term living services in the commonwealth, building upon the administration's successes to date in reforming and rebalancing the state's long-term living system. The 2007-08 enacted budget provides \$17.2 million in additional state funds to implement this plan.

This budget provides funding to:

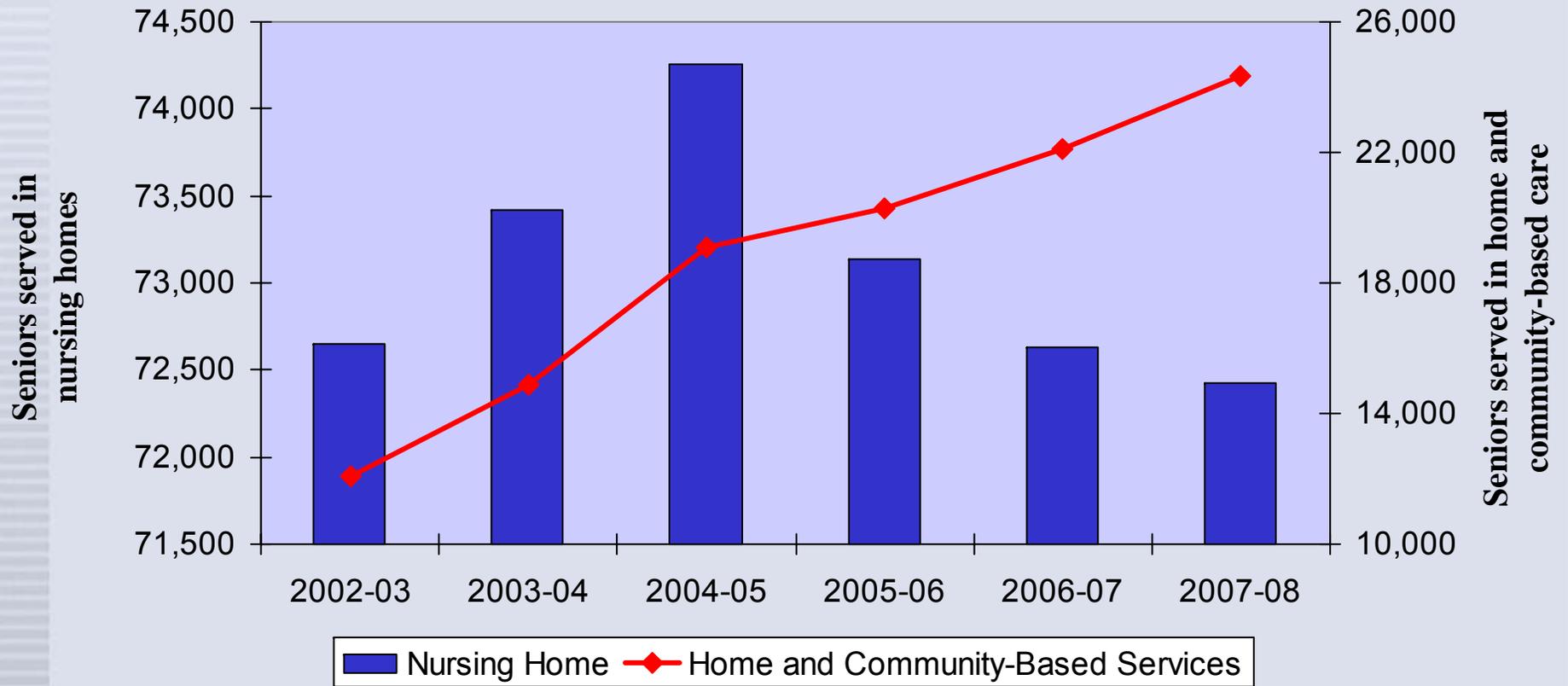
- Increase the number of people who can use home and community-based services instead of nursing homes, including 2,200 more people age 60 and above and 1,000 more people under age 60. These increases move the commonwealth closer to the goal of achieving a balance of 50 percent institutional care to 50 percent home and community-based care over the next five years.
- Expand efforts to assist nursing home residents who wish to return to their homes.
- Implement a public-education campaign to help Pennsylvanians make informed choices about their long-term living options.
- Expand the number and types of community-based service options.
- Encourage appropriate distribution of nursing home beds.
- Continue building quality, efficiency and integrity in the long-term living system.
- Expand availability of the Links – the pilot program providing “one-stop” long-term living information and guidance.



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Expanding Long-Term Living Choices for Seniors

The 2007-08 enacted budget provides funds to expand the number of people using home and community-based services by 2,200 to 24,320 seniors – an increase of 102 percent since 2002-03.





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2007-08 Budget Overview

**Public Safety
and
Security**



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Pennsylvania's Safety and Security – A Commonwealth Priority

The 2007-08 enacted budget provides additional investments to continue the administration's efforts to increase the security and safety of Pennsylvania's residents and businesses.

- ✓ **\$150.0 million in federal funds for domestic preparedness**
- ✓ **\$31.1 million in state funds to reopen SCI Pittsburgh**
- ✓ **\$27.5 million in total funds for hazard mitigation**
- ✓ **\$25.0 million in state gaming funds for volunteer company grants**
- ✓ **\$14.0 million in federal funds for pandemic influenza preparedness**
- ✓ **\$11.7 million in state funds for capacity increases at Community Corrections Centers**
- ✓ **\$4.0 million in state funds for the Pennsylvania Map project**
- ✓ **\$2.5 million in state funds for flood mitigation, flood control and flood-plain management plans**

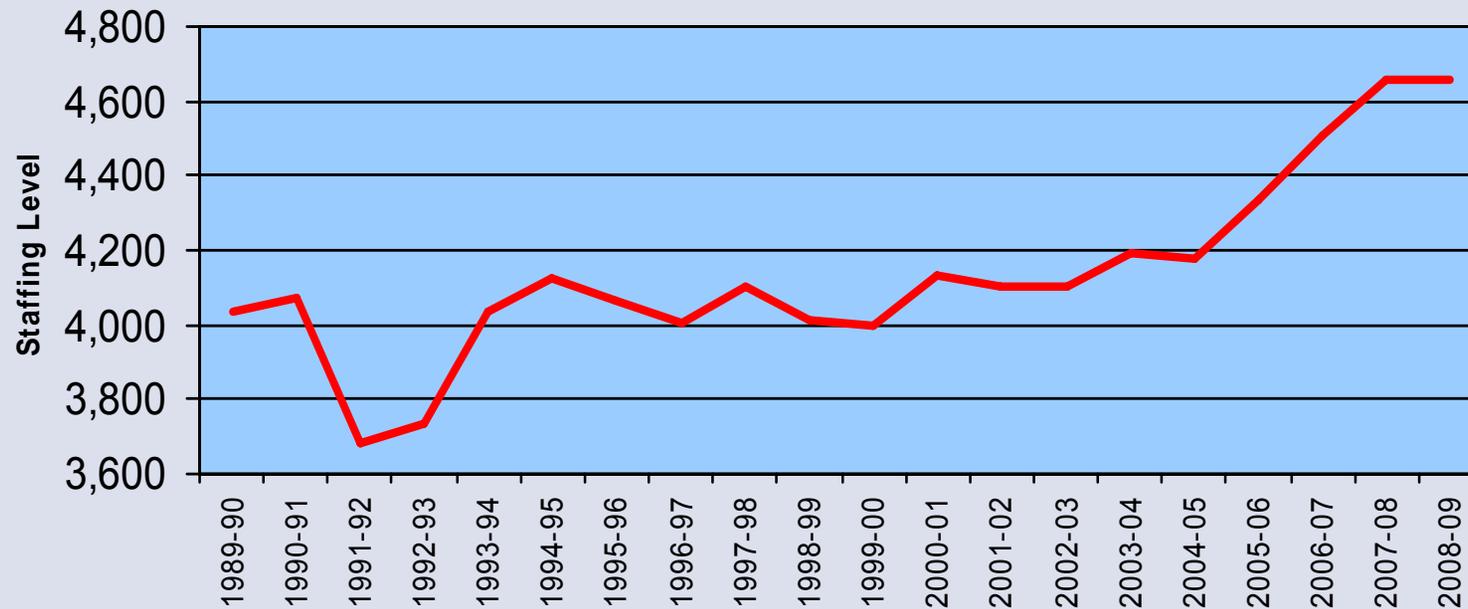


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Pennsylvania State Police

Recognizing the critical role of the State Police in ensuring public safety in the future, the 2007-08 enacted budget includes funding to raise the trooper level to an all-time high of 4,660 by September 2008.

Pennsylvania State Police ---- Number of Enlisted Positions

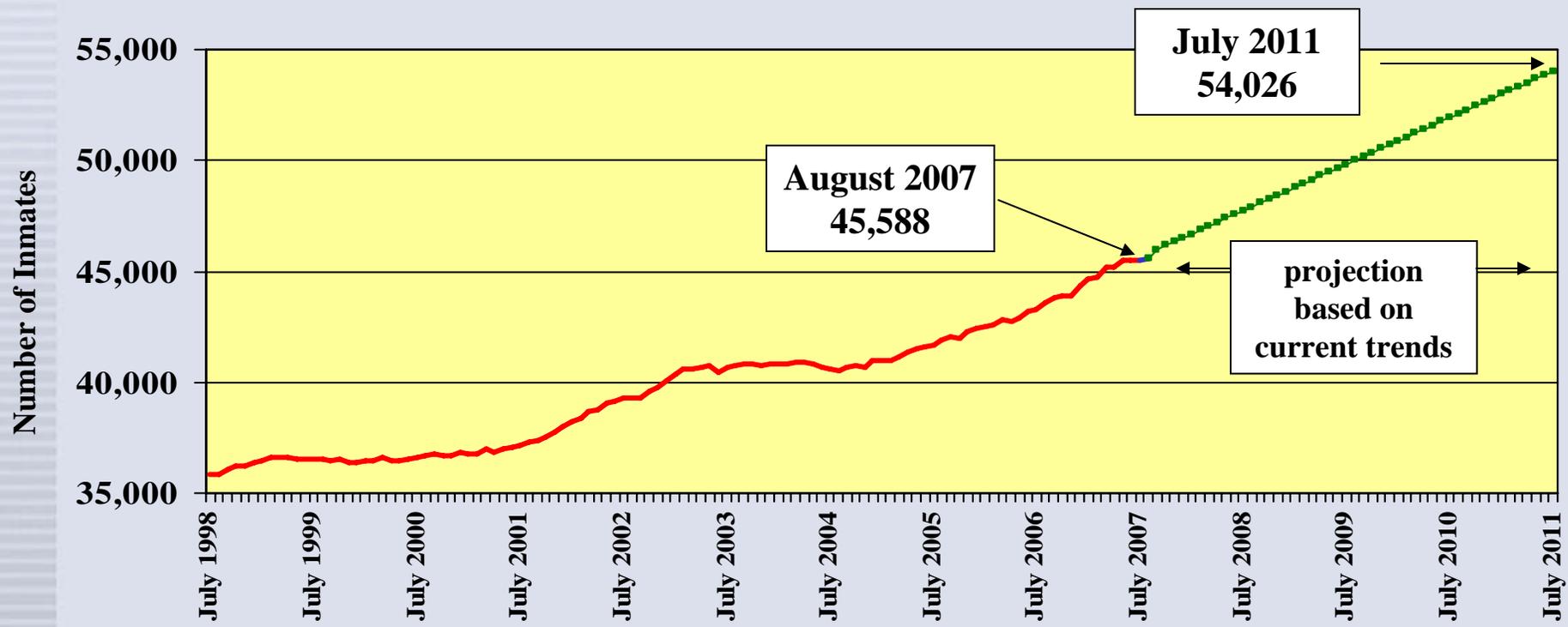




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Department of Corrections Inmate Population

The number of offenders incarcerated in State Correctional Institutions is projected to increase from nearly 45,600 inmates in August 2007 to more than 54,000 inmates by July 2011, an increase of nearly 20 percent, based on current trends. The 2007-08 cost per inmate will be more than \$34,000.





Reducing Prison Re-Entry Rates

The 2007-08 enacted budget provides additional investments to continue the administration's efforts to increase the security and safety of Pennsylvania's residents while saving taxpayer money by reducing recidivism.

- ✓ \$4 million for additional **parole agents, transitional planning coordinators and referral specialists to work with offenders.**
- ✓ \$3.2 million to increase **eligible participants in the State Intermediate Punishment program for intensive drug or alcohol treatment.**
- ✓ \$2.2 million in additional funding for the **Drug and Alcohol Restrictive Intermediate Punishment program.**
- ✓ \$792,000 for the Department of Corrections to **provide addiction counseling, cognitive behavior therapy and psychological assessments to inmates.**
- ✓ \$785,000 for the Department of Corrections for **additional vocational education teachers.**



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2007-08 Budget Overview

Transportation Funding



Problems with Public Transportation Funding

- **Pennsylvania funding for public transit has not kept pace with inflation – due to the lack of a dedicated, adequate, predictable funding source and years of relatively modest growth in General Fund Mass Transportation Assistance transit funding.**
 - Mass Transit received zero increases in six of the eight years from 1997 to 2004.
 - The Rendell Administration’s first budget, for 2004-05, included the largest increase in mass transportation operating assistance in 10 years – 6.6%. At the pace of increases over the prior decade, it would have taken more than 12 years to realize this rate of increase.
 - The 2004-05 budget also included a \$34 million “swap” of sales tax revenue for other slow-growth revenue sources in the Public Transportation Assistance Fund, which stabilized PTAF’s declining revenue base, but did not compensate for prior-year declines.
- **A growing gap has emerged between transit expenses and revenues due to the almost complete elimination of federal operating funds, the poor performance of the major dedicated state revenue source and the freezing for several years of the state’s General Fund operating subsidy.**
- **Without any changes to available revenues and assuming maintenance of existing service levels, transit agency expenditures are projected to exceed revenues by \$500 million, or 37 percent, by 2010-11.**



Problems with Bridge and Highway Funding

Motor License Fund revenues come mainly from liquid fuels taxes that are based in part on consumption, in part on price. Because higher prices tend to depress consumption, MLF revenues have usually remained relatively level.

- The Oil Company Franchise Tax is tied to the price of fuel, and has contributed to recent increases in MLF revenues. Fuel price increases have been sufficiently steep that overall MLF revenue growth was not offset due to decreases in consumption.
- The franchise tax has a statutory cap -- \$1.25 per gallon wholesale. Once the cap is reached, fund revenues plateau.

Results of PA Bridge-Highway Underinvestment:

Poor Pavement Conditions - More than one-third of the 21,000 miles of state-owned secondary roads are rated “poor.”

Bridges Are in Need of Repair - The commonwealth maintains a system of 25,000 bridges – the third-largest bridge system in the nation. Compared to similar states, Pennsylvania has relatively older bridges. Last year, the state closed 64 bridges and posted weight restrictions on another 735 bridges, eliminating or limiting the mobility of people, goods and public-safety vehicles in the affected communities.



Transportation (Highways, Bridges and Transit)

\$750 million of new investment in the 2007-08 enacted budget and an average of \$946 million per year in the first ten years to ensure smoother and safer roads and bridges, as well as crucial mass transit funding. This is the most significant funding devoted to transportation needs in the history of the commonwealth.

Other Options Considered:

- Oil Company Franchise Tax (for Highways and Bridges) – \$815 million
- License and Registration Fees (for Highways and Bridges) – \$150 million
- Realty Transfer Tax at 0.5 to 0.9 percent (for Transit) – \$286-\$576 million
- Monetize the PA Turnpike (for Highways and Bridges) – \$965 million
- New Sales Tax (for Transit) – \$190 million
- 73%-125% increase in Titling, Inspection and Other Fees (for Transit) – \$100-\$174 million
- Local Contribution of 25% (for Transit) – \$184 million
- Interstate Tolls (for Transit) – \$300 million
- Oil Company Gross Profits Tax of 6.17% (for Transit) – \$760 million

Act 44 of 2007: Created The Public Transportation Trust Fund, drawing resources from sales and other taxes, lottery proceeds and money from the Pennsylvania Turnpike Commission.



Act 44 of 2007

The General Assembly has thus far opposed leasing the PA Turnpike to a private operator but has also been unwilling to approve higher or new taxes or fees to fund transportation. So the administration, the Turnpike Commission and the legislature have worked together to craft a funding solution that protects the public and turnpike workers but still generates a historic new level of transportation funding, without new or higher taxes.

- Act 44 – signed by Governor Rendell on July 18, 2007 – provides for an average of \$950 million in new funding per year for highways, bridges and transit over the next ten years:
 - \$750 million in 2008, \$850 million in 2009, \$900 million in 2010, growing at 2.5% thereafter
 - Requires 25% turnpike toll increase in 2009, then 3.0% per year thereafter
 - I-80 to be leased to Turnpike Commission, with tolls in place by 2011
 - Turnpike must meet annual payment requirements to commonwealth
 - Congestion Fee proposal is dropped
 - Turnpike Commission might meet its obligation through direct payments and/or through one or more of three sets of possible bond issues:
 - Special Revenue Bonds backed by pledge of Motor License Fund revenues, including revenues from the Turnpike Commission
 - Turnpike Commission bonds
 - Bonds issued against I-80 toll revenues
 - Establishes Public Transportation Trust Fund that combines old and new transit revenue sources and dedicates a portion of the state sales tax to transit funding, replacing the current general fund appropriation that failed to grow with inflation over the years.



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Distribution of New Transportation Funds

Act 44 of 2007

17% Bridge-Highway Increase

58% Transit Increase

(Amounts in Millions)

Year	Total	Roads & Bridges	Transit
2008	\$750.0	\$450.0	\$300.0
2009	\$850.0	\$500.0	\$350.0
2010	\$900.0	\$500.0	\$400.0
2011	\$922.5	\$512.5	\$410.0
2012	\$945.6	\$525.3	\$420.3
2013	\$969.2	\$538.4	\$430.8
2014	\$993.4	\$551.9	\$441.5
2015	\$1,018.3	\$565.7	\$452.6
2016	\$1,043.7	\$579.8	\$463.9
2017	\$1,069.8	\$594.3	\$475.5



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Distribution of New Funds

Roads and Bridges

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

How Funds Will Be Distributed	2007-08 Amount
Needs-Based Formulas – Developed among metropolitan and rural planning organizations and PennDOT	\$347.5 Million
Discretion of the Secretary of Transportation (15 percent)	\$67.5 Million
Municipal Roads and Bridges (fixed amount)	\$30.0 Million
Maintenance and Construction of County Bridges (fixed amount)	\$5.0 Million



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Distribution of New Funds

Public Transportation

Fiscal Year	Operating	Capital
2007-08	\$250 Million	\$50 Million
2008-09	\$250 Million	\$100 Million
2009-10	\$250 Million	\$150 Million

Operating and capital funding both grow at 2.5% per year after the first three years.

New capital funding is distributed upon application to PennDOT at its discretion.

Operating expenses: Total expenses required to continue service to the public and permit needed improvements in service which are not self-supporting and otherwise for any purpose in furtherance of public transportation, including all state asset maintenance costs.

Asset Maintenance: All vehicle maintenance expenses, nonvehicle maintenance expenses and materials and supplies used in the operation of local transportation organizations and transportation companies.

Capital project: Any system of public passenger or public passenger and rail transportation.



Where We Go from Here

- **Required to implement Act 44**
 - Traffic and revenue analyses of Turnpike Main Line and I-80
 - Application to federal government to place tolls on I-80
 - Lease and other (e.g. cash flow) agreements between PA and Turnpike Commission
 - Issuance of bonds; Special Revenue Bonds are a new credit to be rated
- **Challenges and Issues**
 - Securing federal approval for tolling I-80 – funding falls to a flat \$450 million in three years (\$200 million roads/\$250 million transit) if there is no I-80 tolling.
 - Turnpike Commission’s Act 44 payment obligations to the commonwealth will be subordinate to the commission’s debt service obligations for the turnpike itself.
 - Local government transit match begins at 13% and goes to 15% - no new dedicated taxes are provided for most localities. Matching ratios represent “hold harmless” for most jurisdictions but not all.
 - While future costs of maintaining I-80 are addressed in the legislation, the true current costs need to be further analyzed, and whether the Turnpike Commission or PennDOT will maintain I-80 must be determined.
 - Because of the prohibition against Motor License Fund use for transit, Special Revenue Bonds must be issued at levels no higher than annual new highway/bridge need.



Factors Influencing the 2007-08 Budget

**Economic
Competitiveness and
Changes to
Business Taxes**

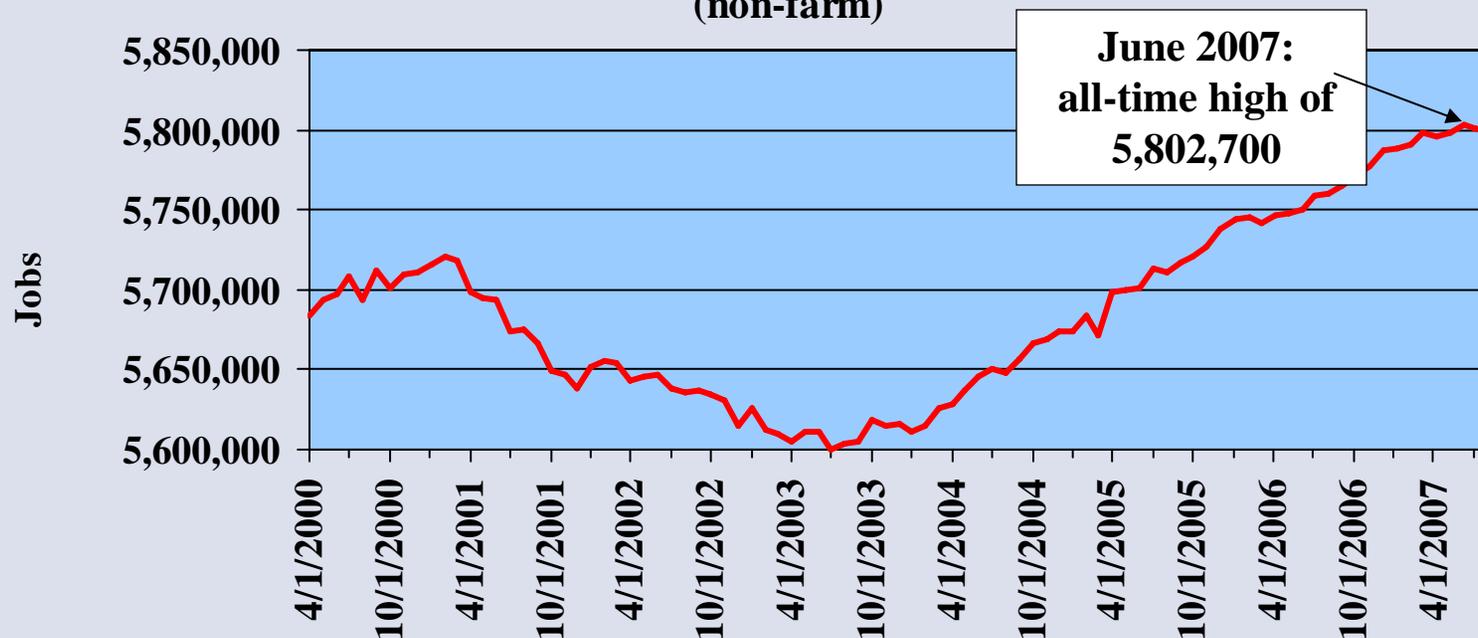


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Pennsylvania Job Growth

Job growth is a key measure of Pennsylvania's improving economy since 2003. In June 2007, Pennsylvania reached a historic high in the number of non-farm jobs, seasonally adjusted. The state's monthly unemployment rate in August was 4.5 percent – 1.2 percentage points below January 2003 – when the rate was 5.7 percent. Since January 2003, the Pennsylvania economy has generated a net increase of 171,100 jobs. State investments, including the Economic Stimulus program and increased investments in education and workforce development, have been major factors behind the turnaround.

Steady Rise in Pennsylvania Jobs (non-farm)



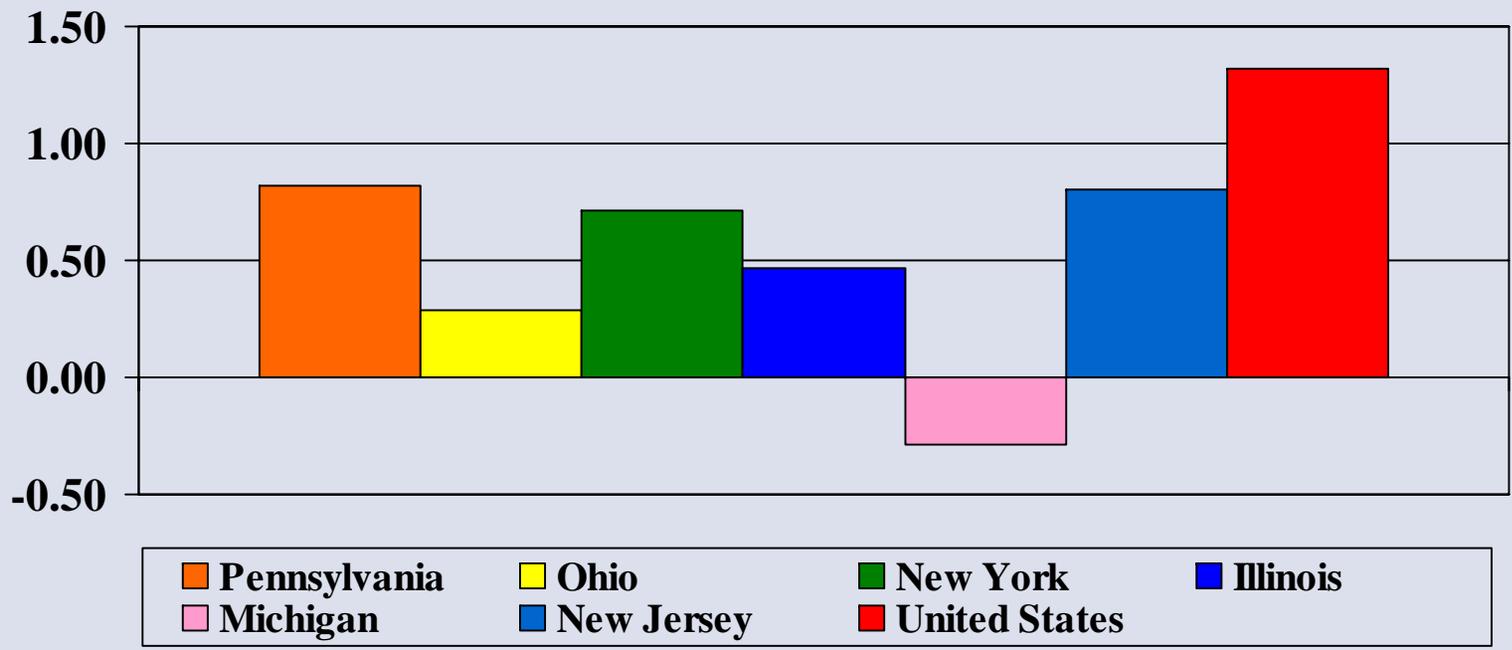


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PA Job Growth Outperforms Similar States

For Pennsylvania, the general slowing of the U.S. economy has been offset, in part, by strong post-recession job growth. Pennsylvania's job growth has routinely outperformed similar states. In 2004 and 2005, Pennsylvania had a higher average job growth rate than Ohio, New York, Illinois, Michigan and New Jersey.

Percent Growth Two Year (2004-2005) Average Annual Job Growth Rate





2007-08 Business Tax Cuts

Business taxes will be cut by \$299 million in 2007-08. There has been a cumulative total of \$2.4 billion in business tax cuts from 2003-04 to 2007-08. The 2007-08 cuts include:

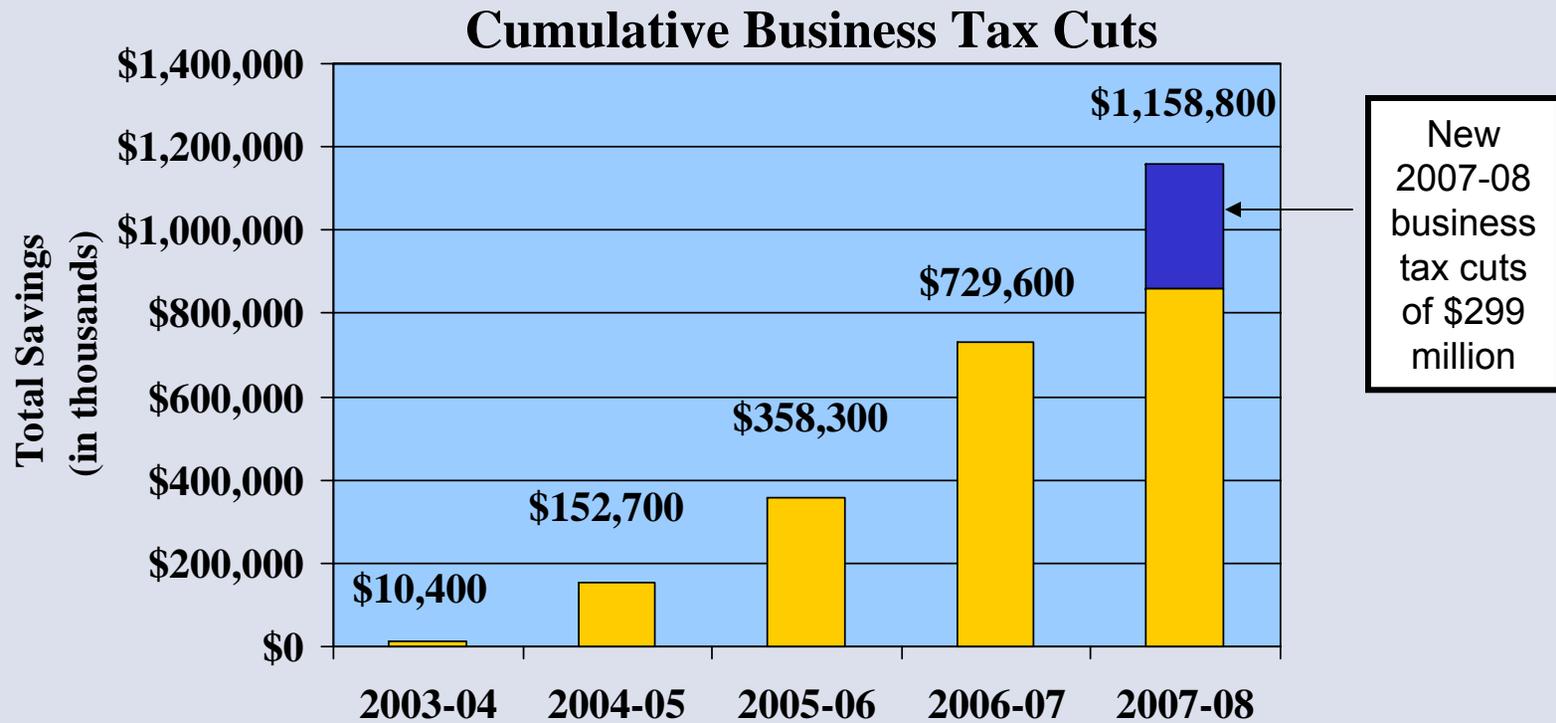
- **Capital Stock and Franchise Tax** – continuation of the phase-out by one mill to lower the rate to 3.89 mills, saving businesses a total of \$232 million in 2007-08. In 2007-08, businesses will save more than \$802 million due to the cumulative reductions in the CSFT implemented since 2003.
- **Film Production Tax Credit** – \$75 million
- **Educational Improvement Tax Credit** – \$16 million
- **Goodwill Exemption for Bank Shares Tax** – \$13 million
- **Resource Enhancement & Protection Tax Credit** – \$10 million



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Cumulative Business Tax Cuts 2003-04 through 2007-08

The 2007-08 enacted budget includes \$299 million in new business tax cuts, including \$232 million from the scheduled one mill reduction in the Capital Stock and Franchise Tax. Since 2003, the administration has reduced business taxes by \$2.4 billion, including more than \$1.6 billion in savings from the Capital Stock and Franchise Tax.

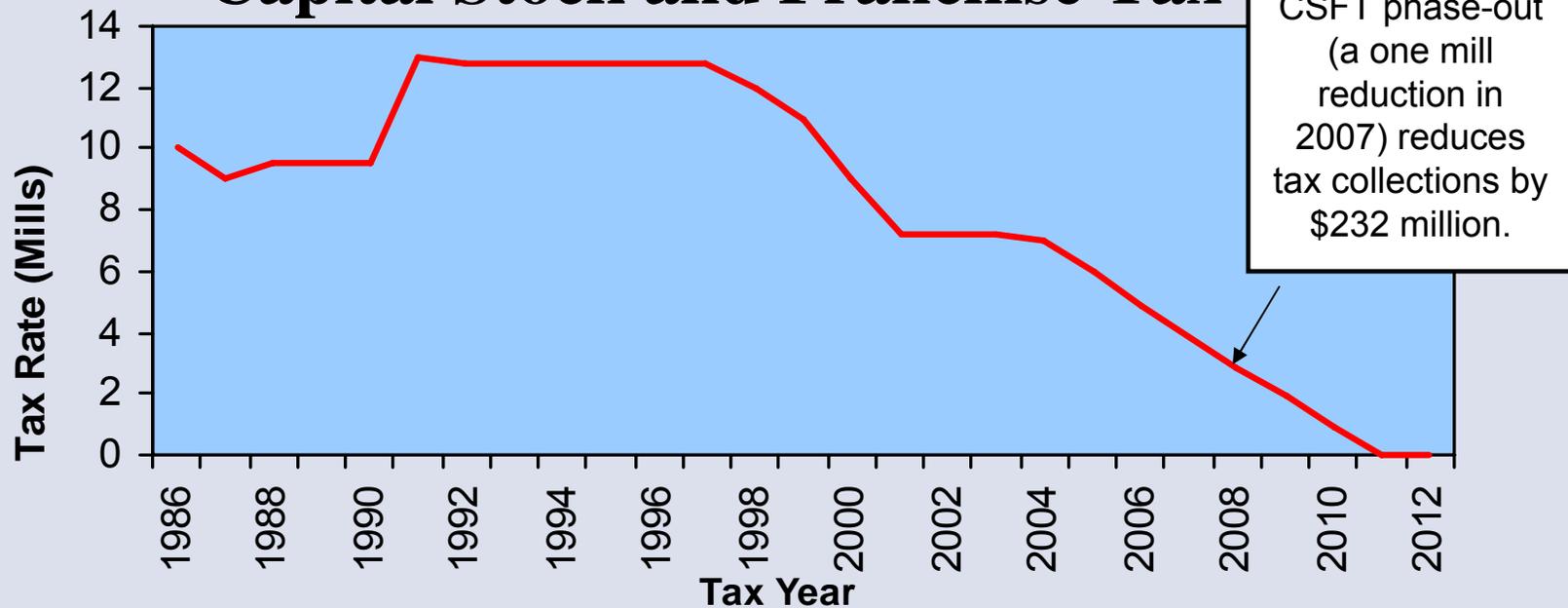


CSFT reductions are based on revisions to the rate versus a 7.24 mill base.



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



- The Capital Stock and Franchise Tax declines by another one mill to 3.89 mills in 2007, resulting in a \$232 million savings to businesses in 2007-08. The rate will decline by another one mill in 2008.
- Cumulative business tax reductions from major tax savings initiatives for 2003-04 through 2007-08 total nearly \$2.4 billion, including more than \$1.6 billion in cumulative savings from the Capital Stock and Franchise Tax phase-out and acceleration.



2007-08 Budget Overview

Economic Stimulus

Update



Update on the Economic Stimulus Program

(dollar amounts in thousands)

Program	Projects Funded	Funds Committed	Program	Projects Funded	Funds Committed
Infrastructure Projects:			Community Revitalization:		
Business in Our Sites	109	\$300,000	Homeownership Choice	52	\$63,752
PennWorks	53	\$172,500	Hometown Streets	271	\$176,100
Tax Increment Financing	2	\$10,000	Business and Other Private-Sector Investments:		
Infrastructure Facilities Improvement Program	9	\$5,900	First Industries Fund (Agriculture/Tourism)	307	\$58,400
Redevelopment Assistance Capital Program	380	\$1,111,000	Second Stage Loan Program	5	\$2,500
Community Revitalization:			Venture Capital Investment Fund	12	\$38,600
Main Street Downtown Business Renewal	235	\$23,100	Building PA	9	\$47,000
Elm Street Downtown Residential Renewal	111	\$20,600	KIZ	25	\$8,700
Enterprise Zones	114	\$19,100	Core Industries	17	\$20,100
Housing and Redevelopment Assistance	318	\$95,100	Base Realignment and Closures	Multiple Sites	\$6,000
			TOTAL	2,029	\$2,178,452



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Pennsylvania's Economic Stimulus Program is Creating Jobs

Program	Jobs Pledged
Infrastructure Projects:	
Business in Our Sites	117,880
PennWorks	87,005
Tax Increment Financing	1,500
Infrastructure Facilities Improvement Program	4,495
Community Revitalization:	
Main Street Downtown Business Renewal	461
Enterprise Zones	1,125
Housing and Redevelopment Assistance	142

Program	Jobs Pledged
Business and Other Private-Sector Investments:	
First Industries Fund (Agriculture/Tourism)	2,084
Second Stage Loan Program	34
Core Industries	2,257
Keystone Innovation Zones	1,291
TOTAL	218,274



2007-08 Budget Overview

2007-08 Health Investment Plan



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2007-08 Health Investment Plan Tobacco Settlement Fund/ Community Health Reinvestment

The Tobacco Settlement Fund receives revenue from the Master Settlement Agreement with the five major tobacco companies and from the Community Health Reinvestment Agreement with Pennsylvania's four Blue Cross/Blue Shield plans. These funds provide health care for the uninsured, home and community-based services for seniors, tobacco use prevention and cessation, broad-based health research, medical care for workers with disabilities, hospital uncompensated care and an endowment account to preserve a portion of the receipts for future uses. The enacted budget includes a total of \$524 million to be used for the following initiatives in 2007-08.

Adult Health Insurance	\$180.3 million	Hospital Uncompensated Care	\$35.2 million
Long-Term Living	\$150.5 million	Pharmaceutical Benefits for the Elderly	\$28.2 million
Health Research	\$66.9 million	Life Sciences Greenhouses	\$3.0 million
Tobacco Prevention and Cessation	\$31.7 million	Endowment Account	\$28.2 million



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2007-08 Budget Overview

Environmental Programs



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Growing Greener II

Growing Greener II represents one of the largest investments ever (\$625 million) in improving Pennsylvania's environment. In 2006-07, the program provided critical funding for 415 land and environmental improvement projects, including \$16 million for 70 community park, recreation, state park and forest projects, \$47 million to preserve more than 22,000 acres of open space and farmland and \$33 million for abandoned mine reclamation, acid mine drainage abatement and innovative treatment projects.

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

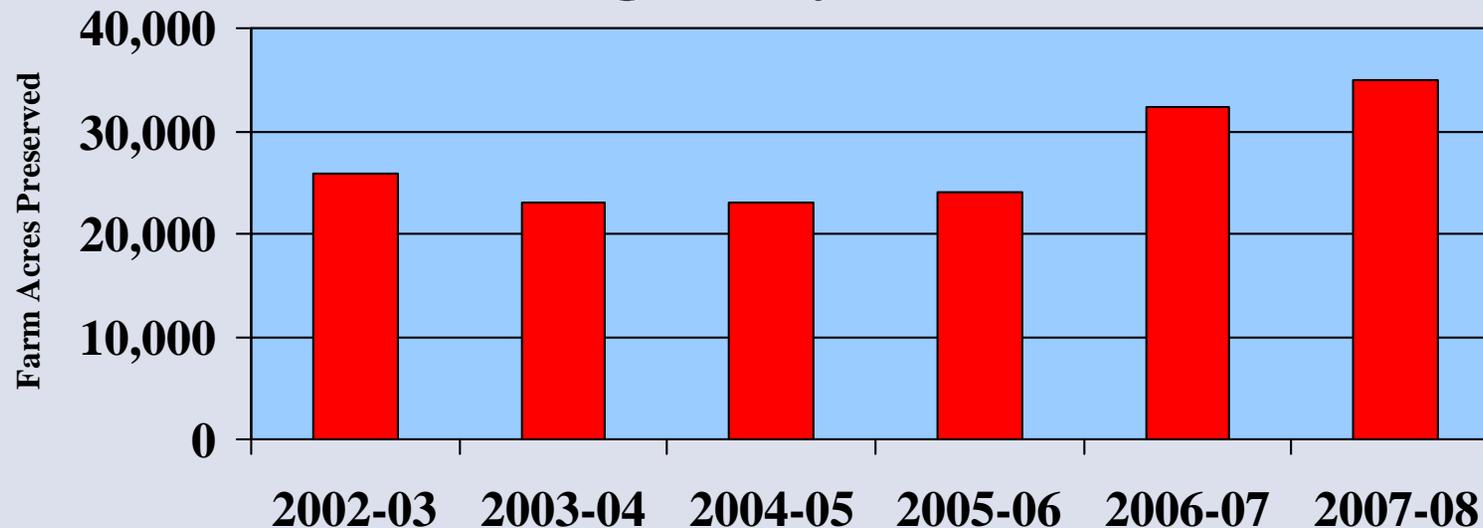


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Growing Greener II - Showing Results for a Better Pennsylvania Environment

Growing Greener II is already proving itself, as demonstrated by the increasing number of farmland acres that will be preserved for Pennsylvania's future. Approximately 35,000 acres of farmland will be preserved in 2007-08, an increase of 52 percent since 2003-04. Pennsylvania's efforts in preserving its farmland earned it the top ranking in 2006 from the National Association of State Departments of Agriculture in the number of acres of farmland preserved.

Preserving Pennsylvania's Farmland





*Commonwealth of
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2007-08 Unfinished Business



Unfinished Business

Deferred 2007-08 Budget Initiatives

During the July enactment, the General Assembly agreed to postpone discussion on several initiatives the Governor included in his 2007-08 budget proposal. These issues are to be considered in the fall legislative session, which began on September 17, 2007. Passage of these initiatives is critical to increasing the safety, health and economic competitiveness of Pennsylvania.

- ✓ Energy Independence Initiative
- ✓ Cover All Pennsylvanians – Reducing the Number of Uninsured
- ✓ Hazardous Sites Cleanup Fund
- ✓ Jonas Salk (Medical Research) Fund
- ✓ Business Tax Reform



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2007-08 Unfinished Business

**The Energy
Independence Fund**



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Energy Independence Initiative

Bringing New Clean Energy Companies and Investment to Pennsylvania

The 2007-08 Governor's Budget proposed the Energy Independence Initiative, which would provide \$850 million to bring new clean energy companies and investment to Pennsylvania – creating new jobs and making the commonwealth more environmentally sustainable. Existing electricity rate caps will expire by the end of the year 2010, leaving Pennsylvanians vulnerable to spikes in the cost of electricity. The Energy Independence Initiative will help mitigate the effects of the loss of rate caps by increasing the supply of clean energy generated in the commonwealth.

- Save consumers \$10 billion in energy costs over the next ten years.
- Reduce Pennsylvania's reliance on foreign fuels and increase Pennsylvania's clean energy production capacity.
- Expand Pennsylvania's energy production and energy technology sectors to create more jobs.



Energy Independence Fund

The Energy Independence Fund will support early stage financing, project financing and energy conservation initiatives to encourage clean energy projects, create new jobs and make the commonwealth more environmentally sustainable. The cost of the original proposal would have been paid from a Systems Benefit Charge of 1/20th cent per kilowatt-hour of electricity consumption.

Since the 2007-08 budget proposal on energy, the Governor and the General Assembly made a subsequent agreement in principle to pursue \$60 million in annual funding. A bond issue of approximately \$800 million could be supported with \$60 million per year in funding.

Original 2007-08 Proposal -- *Early Stage Financing:*

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



Energy Independence Fund

Bringing New Clean Energy Companies and Investment to Pennsylvania

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

- **Pennsylvania Energy Development Authority (\$300 million):** Governor Rendell re-established PEDA in 2004. PEDA will offer low-interest Clean Energy Loans of up to \$25 million and Clean Energy Grants to stimulate the development of clean energy projects and companies.
- **Energy Site Preparation (\$150 million):** Grants and low-interest loans to stimulate the development of highly efficient, advanced energy business sites. As a result, businesses, local governments and economic development organizations will be able to undertake clean energy projects.
- **Energy Capital Assistance Program (\$50 million):** Venture capital turns companies with clean energy concepts into viable employers. This program will help fill the void in PA of available early stage venture capital for energy projects.



Energy Independence Fund

Bringing New Clean Energy Companies and Investment to Pennsylvania

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

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



Energy Independence Fund

The Cost of Inaction

- Electricity rates in Pennsylvania could soar by fifty to seventy percent, as has happened in Maryland, Delaware and even in Pike County, when generation rate caps end across most of Pennsylvania by the end of 2010. Without this initiative, consumers will forgo \$10 billion in energy savings over the next 10 years.
- Pennsylvanians will continue to send \$30 billion a year out of the state to buy fuel instead of keeping those dollars at home.
- Pennsylvanians will continue to rely on foreign fuels.
- Pennsylvania will lose the 35,000 jobs and \$3.5 billion in investments the initiative is estimated to bring over the next 10 years.
- After fifteen years, an additional 24,682,000 tons of carbon dioxide; 190,200 tons of sulfur dioxide; 54,200 tons of oxides of nitrogen, and 2,048 pounds of mercury will be released into the air every year.



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2007-08 Unfinished Business

Cover All Pennsylvanians

Prescription for Pennsylvania

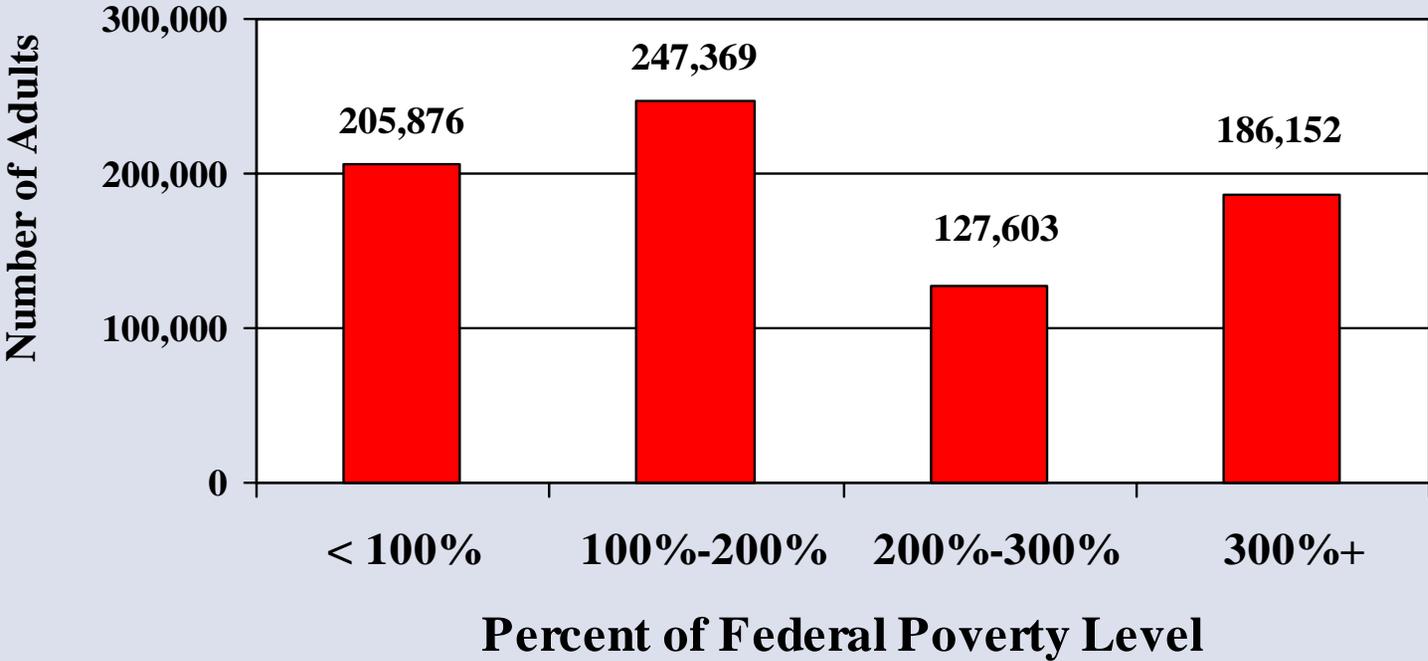


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Pennsylvania's Uninsured Adults

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

Uninsured Adults





Cover All Pennsylvanians: Who is Eligible?

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

Individuals with family income:

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

Small low-wage businesses with:

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



Cover All Pennsylvanians: What Will It Cost?

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

Individuals with family income:

- less than 150 percent of the poverty level will pay \$0 a month.
- between 150 and 200 percent of the poverty level will pay \$40 a month.
- between 200 and 300 percent of the poverty level will pay \$60 a month.
- 300 percent of the poverty level or above may purchase at-cost for \$267 a month.

Small Businesses:

- Employers will pay \$130 a month for at least 75 percent of their employees.
- Employees will pay \$69 a month.
- Employees whose income is below 300 percent of the poverty level will pay monthly premiums at the individual enrollee rates, based on family incomes.

All enrollees will pay co-payments for selected services.



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Cover All Pennsylvanians: Where We Are

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

The commonwealth will continue to:

- Refine the initial Cover All Pennsylvanians proposal to reflect updated analysis
- Work with the PA General Assembly to enact enabling legislation
- Work with the Centers for Medicare and Medicaid Services to obtain federal approval

Target implementation date for Cover All Pennsylvanians
is July 1, 2008.



2007-08 Unfinished Business

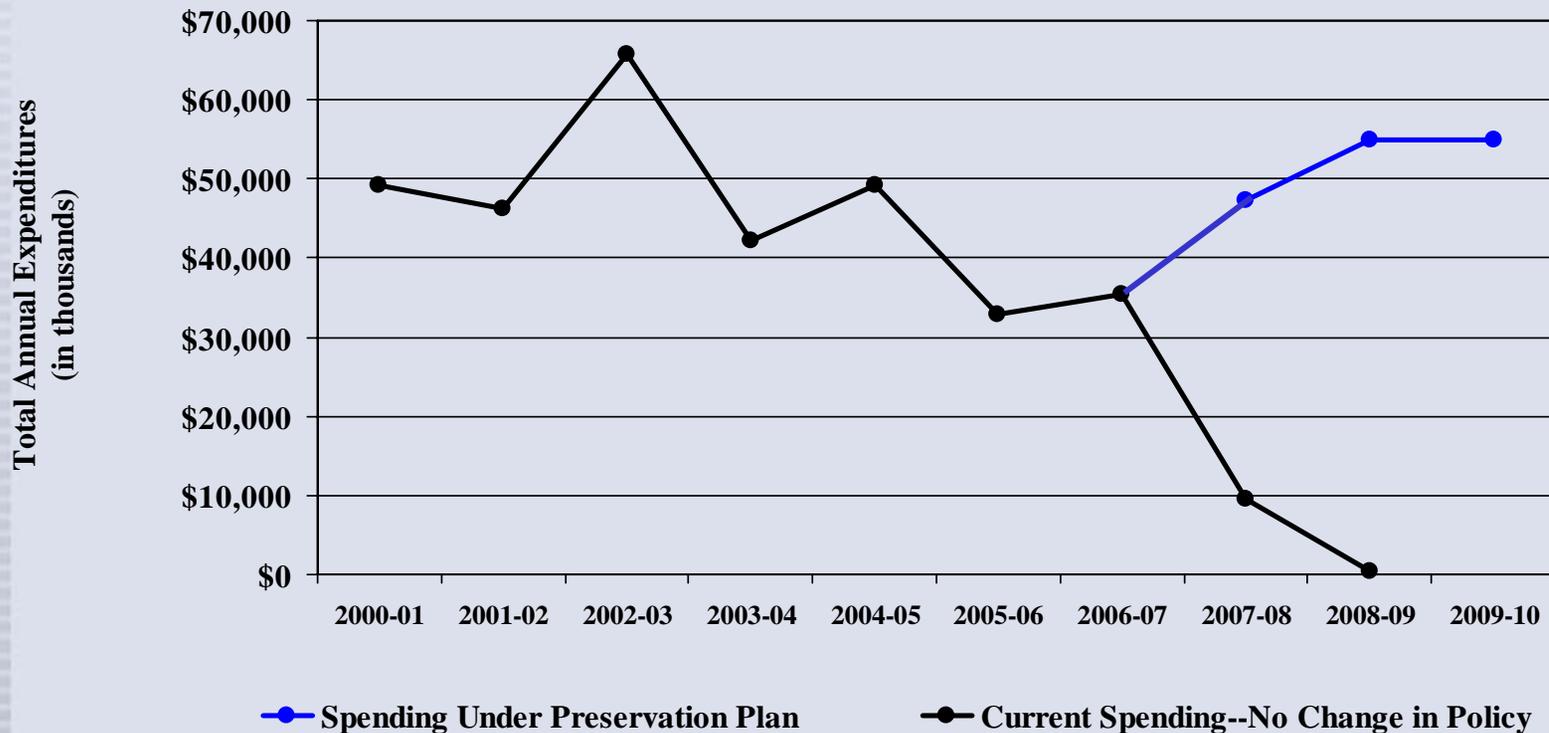
**Hazardous Sites
Cleanup Fund**



Commonwealth of
Pennsylvania

Hazardous Site Cleanups Will Stop Without New Revenue

The Hazardous Sites Cleanup Fund has been without a dedicated funding source since 2002, when a transfer of revenue from the Capital Stock and Franchise Tax was eliminated in order to help balance the General Fund. Since then the program has survived on available balances and temporary funding transfers. Available revenues will be exhausted by January 2008, and the fund will go bankrupt without additional revenue. Governor Rendell has recommended a dedicated revenue source to preserve the Hazardous Sites Cleanup Fund.





Hazardous Sites Cleanup Fund

The Cost of Inaction

The 2007-08 Governor's Budget proposed dedicated funding in the form of a \$2.25 per ton fee increase on the disposal of municipal solid waste to preserve the Hazardous Sites Cleanup Fund. Along with a \$0.50 per ton increase to pay debt service costs of the \$625 million Growing Greener II bond issue, tipping fee increases would cost the average Pennsylvania household \$6.13 per year. Other proposals to use current General Fund or Special Fund dollars simply shift the funding problem to other valuable commonwealth programs or represent only partial, temporary solutions.

Without New Revenue:

- The Hazardous Sites Cleanup program will be bankrupt by January 2008. The completion of 25 hazardous site cleanup projects and at least \$22 million in annual cleanup activities would be lost. Approximately 228 hazardous waste site investigations per year would no longer be initiated. The Department of Environmental Protection would no longer be able to respond to immediate emergencies related to the release of hazardous waste.



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2007-08 Unfinished Business

The Jonas Salk Legacy Fund:

*Accelerating Medical Research to Create
Jobs and Save Lives*



The Jonas Salk Legacy Fund: Accelerating Medical Research in Pennsylvania

The 2007-08 Governor's Budget proposed accelerated funding of up to \$500 million for biosciences research, as well as providing additional resources for biotechnology commercialization and early stage investment capital. Fully funded by a portion of Pennsylvania's Tobacco Settlement Fund revenues, this investment will solidify Pennsylvania's life sciences future. This approach allows the commonwealth to dramatically accelerate the pace of new investment without adversely affecting the commonwealth's General Fund.

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



The Jonas Salk Legacy Fund

The Cost of Inaction

- Pennsylvania's national ranking for state National Institutes of Health funding has already slipped from fourth in the nation to fifth (in 2005). Pennsylvania's ranking could continue to decline without implementation of this program.
- Pennsylvania could lose ground to competitor states in attracting and growing businesses in the biosciences/life sciences sector.
- The IBM Global Competitiveness study identified the life sciences sector as one of the opportunity sectors to focus on. Consider this:
 - There is an indirect multiplier effect of 4.48 jobs for each direct job in the life sciences industry.
 - In PA, it has been observed that there are significantly higher wages for bioscience workers versus their counterparts in the private sector – \$69,474 compared with \$38,055, respectively. Bioscience workers are earning nearly twice what other private sector workers earn, on average.



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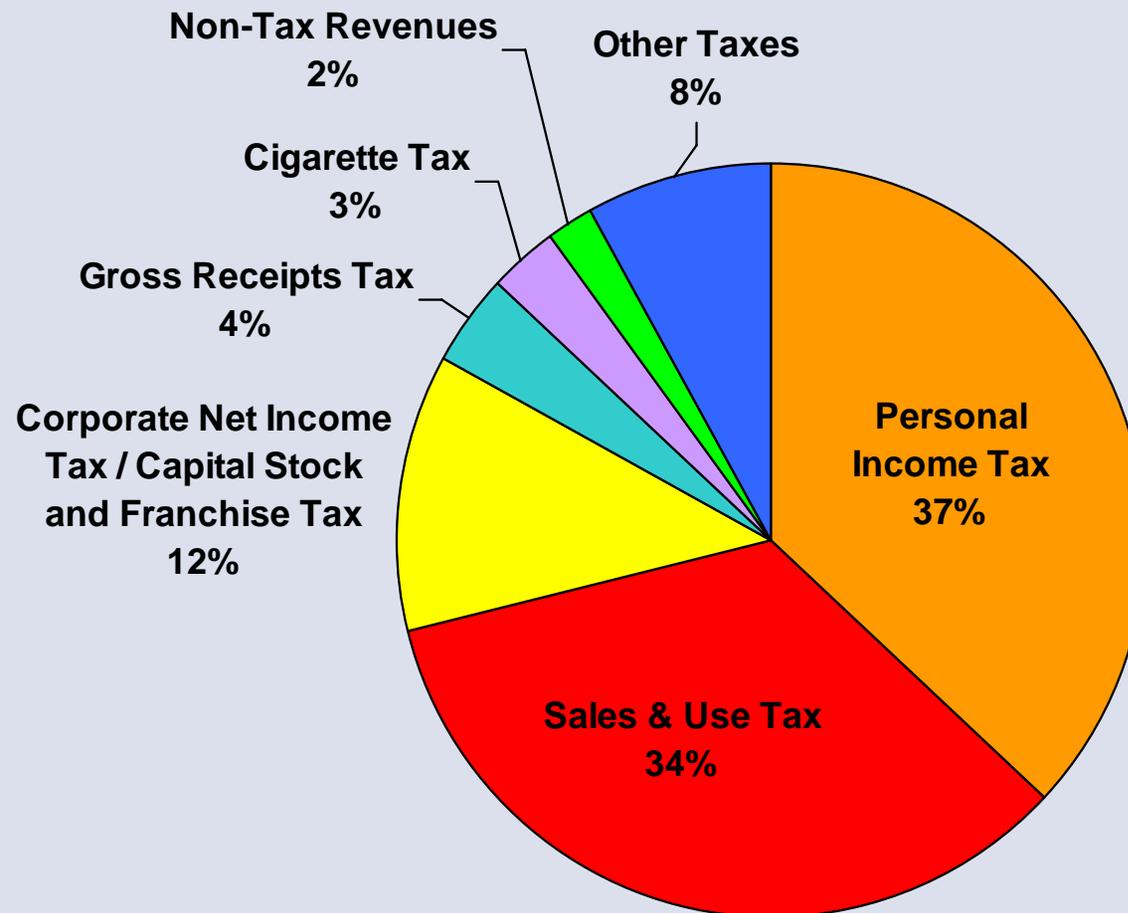
2007-08 Unfinished Business

Pennsylvania Needs Business Tax Reform



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2007-08 General Fund Revenue Sources

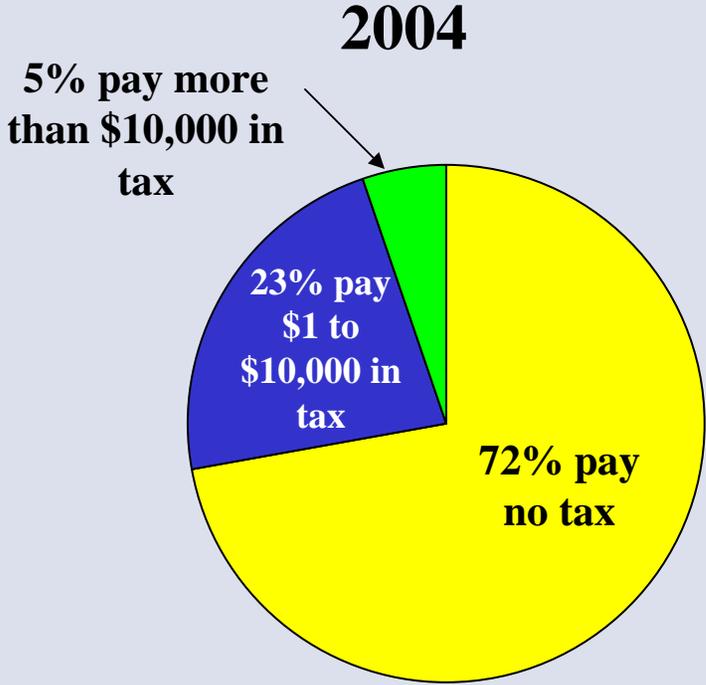
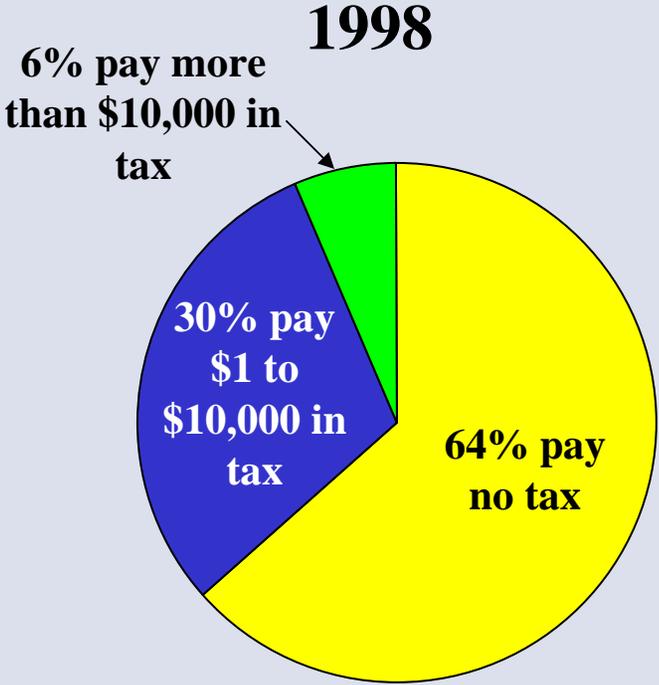


More than two-thirds (71 percent) of General Fund revenues are derived from the Personal Income Tax and the Sales & Use Tax.



Corporate Net Income Tax

The percentage of Corporate Net Income tax filers with no net income has been steadily increasing – from 64 percent of returns in 1998 to 72 percent of returns in 2004. Nearly 95 percent of all Corporate Net Income Tax filers paid \$10,000 or less in Corporate Net Income taxes during 2004.



\$0
 \$1 - \$10,000
 > \$10,000

\$0
 \$1 - \$10,000
 > \$10,000

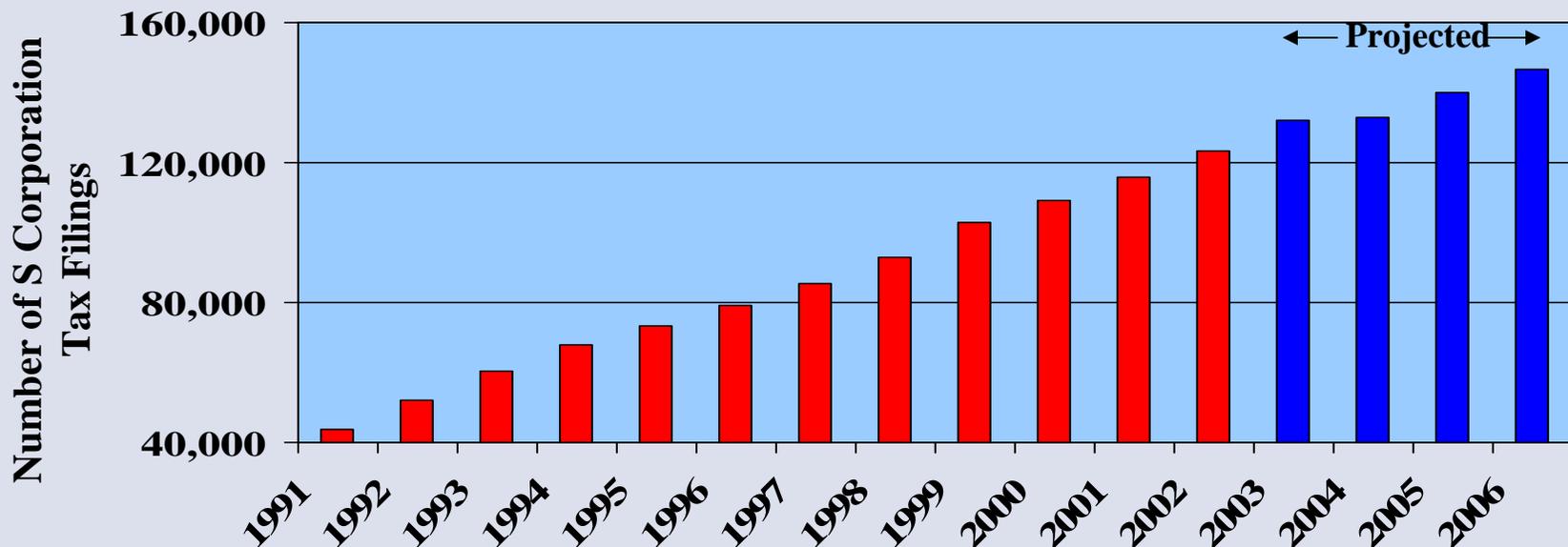


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Pennsylvania S Corporation Tax Filings

Corporations that elect Pennsylvania "S corporation" status are exempt from the Corporate Net Income Tax. Pennsylvania S corporation shareholders instead include their share of Pennsylvania S corporation income in their Pennsylvania Personal Income Tax filings. This effectively allows corporations to pay their business income tax at the Personal Income Tax rate of 3.07 percent rather than the Corporate Net Income Tax rate of 9.99 percent. In 2007-08, the Department of Revenue estimates that S corporations will pay nearly \$675.4 million less in taxes to Pennsylvania because of this allowance.

From 1991 to 2004, the number of S corporations grew by 205 percent, an average annual growth rate of 9 percent.



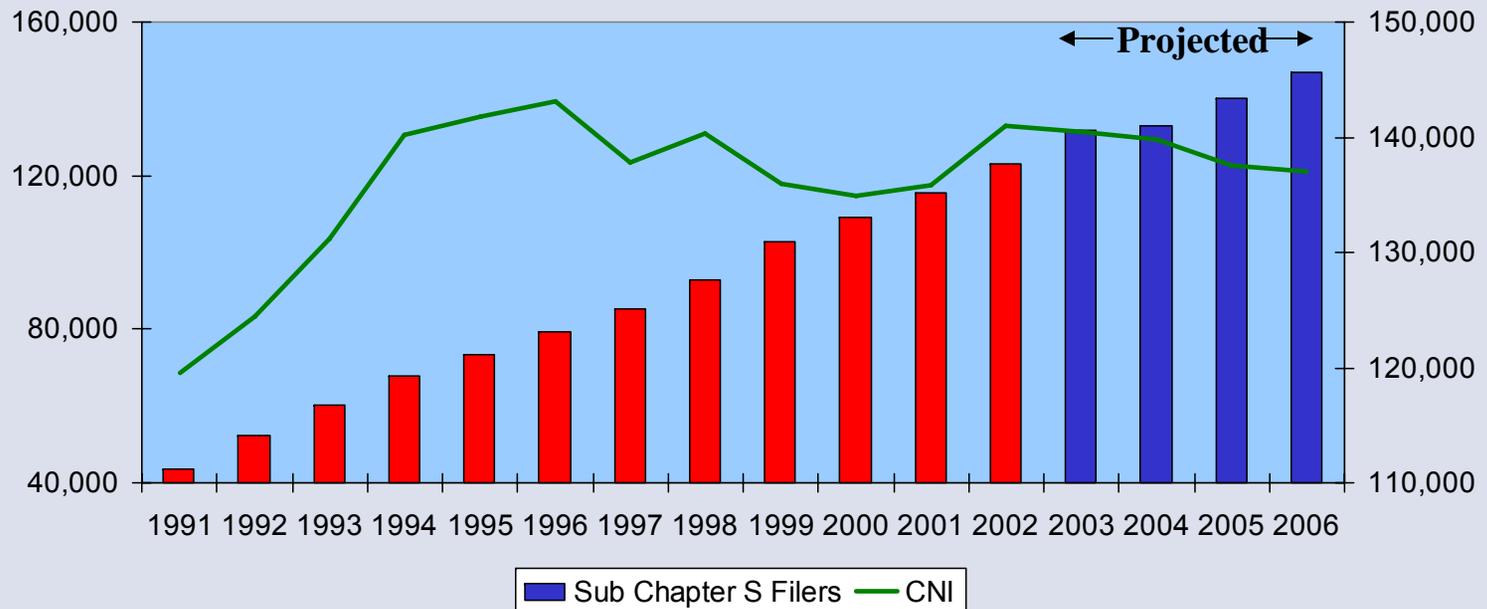


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From 1991 to 2004, the number of S corporations grew by 205 percent, an average annual growth rate of 9 percent. At the same time the number of S corporations has been increasing, the number of Corporate Net Income Tax filers has decreased.



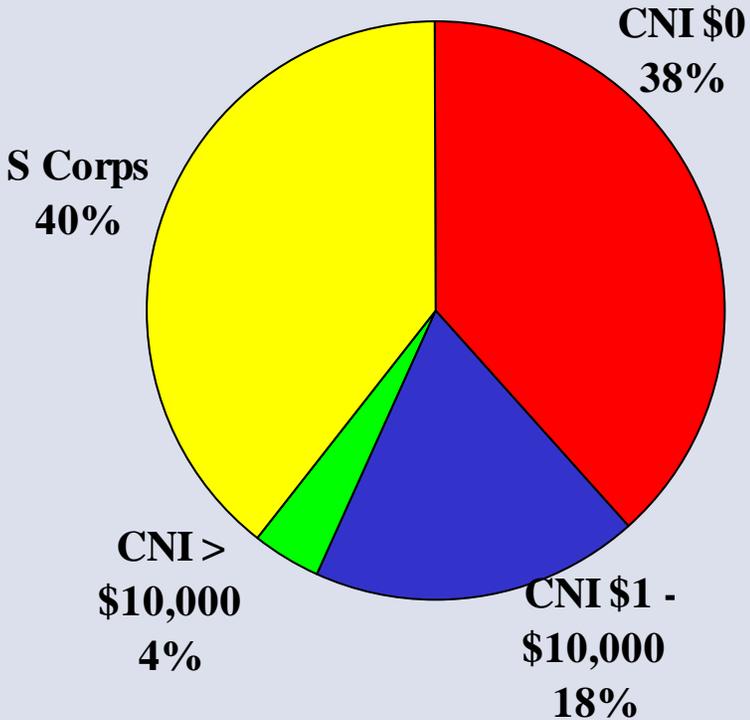


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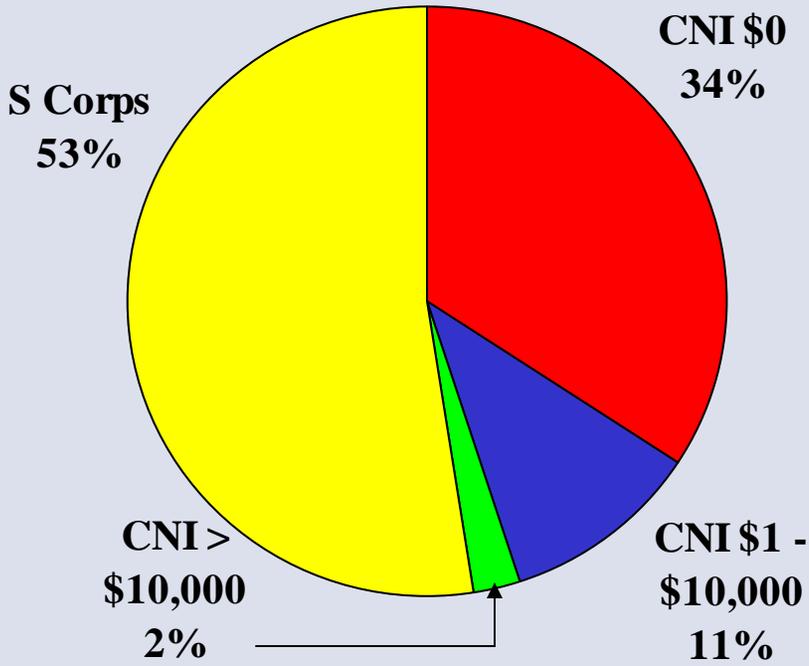
Total Business Tax Filers

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

1998



2004





Commonwealth of Pennsylvania

2007-08 Enacted Budget Overview

To find the *2007-08 Enacted Budget slide show* on the Web, go to www.budget.state.pa.us